Bank of the Philippine Islands

Financial Statements
As at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017

Independent Auditor's Report

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

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying consolidated financial statements of the Bank of the Philippine Islands and Subsidiaries (the "BPI Group") and the parent financial statements of the Bank of the Philippine Islands (the "Parent Bank") present fairly, in all material respects, the financial position of the BPI Group and of the Parent Bank as at December 31, 2017 and 2016, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards.

What we have audited

The financial statements comprise:

- the consolidated and parent statements of condition as at December 31, 2017 and 2016;
- the consolidated and parent statements of income for each of the three years in the period ended December 31, 2017;
- the consolidated and parent statements of comprehensive income for each of the three years in the period ended December 31, 2017;
- the consolidated and parent statements of changes in capital funds for each of the three years in the period ended December 31, 2017;
- the consolidated and parent statements of cash flows for each of the three years in the period ended December 31, 2017; and
- the notes to the consolidated and parent financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independence

We are independent of the BPI Group and the Parent Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the consolidated and parent financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

Our Audit Approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and parent financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated and parent financial statements as a whole, taking into account the structure of the BPI Group and the Parent Bank, the accounting processes and controls, and the industry in which the BPI Group and the Parent Bank operate.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and parent financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment losses on loans and advances	
Refer to Note 10 of the consolidated and parent financial statements. We focused on this account because of the complexity involved in the estimation process, and the significant judgments that management make in ascertaining the provision for loan impairment. The calculation of impairment losses is inherently judgmental for any bank. As of December 31, 2017, the total allowance for impairment for loans and advances amounted to PHP20,663 million for the BPI Group and PHP13,913 million for the Parent Bank while provision for loan losses recognized in profit or loss for the year then ended amounted to PHP4,317 million for the BPI Group and PHP3,880 million for the Parent Bank. In particular, judgment arises over the determination of objective evidence of impairment which may have a reliably measurable effect on the present value of estimated future cash flows. Further, there are various assumptions involved in calculating the required allowance for impairment losses such as the probability of default and loss given default which, to a large extent, are subject to management judgment. Impairment losses are calculated on a specific basis for individually significant loans and on a collective basis for portfolio of not individually significant loans with similar nature and characteristics.	Our audit procedures included evaluating and validating the design and operating effectiveness of controls over loan loss provisioning, including the process for credit risk rating and management's review of the estimates. Our substantive procedures to assess management's calculation of allowance for impairment included the following: <u>Individual/ specific assessment</u> We assessed the BPI Group's and Parent Bank's review process on the credit worthiness of borrowers. The appropriateness of provisioning methodology was independently considered for a sample of loans selected on the basis of risk. We formed our independent credit view on the levels of provision booked based on the counterparty information in the credit file, including consideration of any related collateral. Calculations using the discounted cash flow model for selected loan samples were re-performed.

Key Audit Matter	**How our audit addressed the Key Audit Matter (cont.)**
(cont'd.)	Collective assessment We tested the impairment model used and assessed the reasonableness of management assumptions, mainly the probability of default and loss given default, by reference to the historical loss experience of the BPI Group and the Parent Bank. We also performed independent credit review to determine whether impairment triggers exist for selected loan samples. We recomputed the allowance for impairment and compared the resulting balance to the allowance recorded by management. Based on the procedures we performed, we determined that the impairment models and assumptions were materially consistent with our independent expectations and analysis.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report, but does not include the consolidated and parent financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated and parent financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated and parent financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and parent financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated and parent financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and parent financial statements, management is responsible for assessing the ability of each entity within the BPI Group and of the Parent Bank to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entities within the BPI Group and the Parent Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the BPI Group's and the Parent Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Philippine Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and parent financial statements.

As part of an audit in accordance with Philippine Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BPI Group's and of the Parent Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of each entity within the BPI Group and the Parent Bank to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entities within the BPI Group and the Parent Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and parent financial statements, including the disclosures, and whether the consolidated and parent financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Bureau of Internal Revenue Requirement

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

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

Isla Lipana & Co.

Zaldy D. Aguirre
Partner
CPA Cert No. 105660
P.T.R. No. 0024447, issued on January 10, 2018, Makati City
SEC A.N. (individual) as general auditors 1176-AR-1, Category A; effective until April 30, 2018
SEC A.N. (firm) as general auditors 0009-FR-4, Category A; effective until July 15, 2018
TIN 221-755-698
BIR A.N. 08-000745-77-2018, issued on January 29, 2018; effective until January 28, 2021
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
February 8, 2018

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2017 and 2016
(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2017	2016	**2017**	2016
RESOURCES					
CASH AND OTHER CASH ITEMS	4	**35,132**	35,692	**34,160**	34,855
DUE FROM BANGKO SENTRAL NG PILIPINAS	4	**255,948**	239,514	**227,122**	203,743
DUE FROM OTHER BANKS	4	**14,406**	23,037	**10,894**	20,558
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	4,5	**18,586**	15,236	**10,504**	9,049
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS					
- DERIVATIVE FINANCIAL ASSETS	6	**4,981**	2,993	**4,975**	2,993
- TRADING SECURITIES	7	**5,332**	14,603	**3,806**	10,314
AVAILABLE-FOR-SALE SECURITIES, net	8	**23,313**	24,301	**10,139**	19,603
HELD-TO-MATURITY SECURITIES	9	**277,472**	268,483	**255,382**	245,921
LOANS AND ADVANCES, net	10	**1,202,338**	1,040,720	**986,869**	821,545
ASSETS HELD FOR SALE, net		**3,578**	3,667	**609**	933
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	11	**15,056**	13,809	**9,905**	9,395
INVESTMENT PROPERTIES, net	12	**135**	669	**135**	669
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net	13	**6,386**	6,818	**9,043**	8,948
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	2,4	**17,406**	16,326	**-**	-
DEFERRED INCOME TAX ASSETS, net	14	**8,091**	7,543	**5,180**	4,571
OTHER RESOURCES, net	15	**15,745**	12,285	**14,025**	7,738
Total resources		**1,903,905**	1,725,696	**1,582,748**	1,400,835

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2017 and 2016
(In Millions of Pesos)

	Notes	Consolidated 2017	Consolidated 2016	Parent 2017	Parent 2016
LIABILITIES AND CAPITAL FUNDS					
DEPOSIT LIABILITIES	16	**1,562,200**	1,431,300	**1,323,963**	1,184,478
DERIVATIVE FINANCIAL LIABILITIES	6	**4,788**	3,112	**4,788**	3,112
BILLS PAYABLE	17	**83,517**	61,973	**70,722**	52,257
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		**1,218**	670	**1,218**	670
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		**7,022**	7,579	**5,762**	5,893
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		**7,117**	6,853	**4,851**	4,707
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	2	**14,513**	14,367	**-**	-
DEFERRED CREDITS AND OTHER LIABILITIES	18	**39,979**	32,158	**33,212**	26,836
Total liabilities		**1,720,354**	1,558,012	**1,444,516**	1,277,953
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI	19				
Share capital		**39,336**	39,308	**39,336**	39,308
Share premium		**29,771**	29,591	**29,771**	29,591
Reserves		**254**	2,711	**142**	2,695
Surplus		**116,415**	98,602	**73,679**	56,095
Accumulated other comprehensive loss		**(5,088)**	(5,078)	**(4,696)**	(4,807)
		180,688	165,134	**138,232**	122,882
NON-CONTROLLING INTERESTS		**2,863**	2,550	**-**	-
Total capital funds		**183,551**	167,684	**138,232**	122,882
Total liabilities and capital funds		**1,903,905**	1,725,696	**1,582,748**	1,400,835

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

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017
(In Millions of Pesos, Except Per Share Amounts)

		Consolidated			Parent		
	Notes	**2017**	2016	2015	**2017**	2016	2015
INTEREST INCOME							
On loans and advances		**56,557**	48,843	42,156	**40,209**	32,515	27,270
On held-to-maturity securities		**8,787**	8,746	8,790	**8,056**	7,987	8,064
On deposits with BSP and other banks		**2,150**	2,059	2,083	**1,023**	930	1,485
On available-for-sale securities		**358**	469	757	**325**	443	688
On trading securities		**201**	180	241	**170**	155	197
Gross receipts tax		**(2,204)**	(1,985)	(1,728)	**(1,651)**	(1,435)	(1,247)
		65,849	58,312	52,299	**48,132**	40,595	36,457
INTEREST EXPENSE							
On deposits	16	**16,660**	15,301	13,326	**11,413**	9,616	8,383
On bills payable	17	**1,150**	634	332	**885**	406	115
		17,810	15,935	13,658	**12,298**	10,022	8,498
NET INTEREST INCOME		**48,039**	42,377	38,641	**35,834**	30,573	27,959
IMPAIRMENT LOSSES	8,10,15	**3,795**	4,800	3,976	**3,519**	2,930	2,298
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**44,244**	37,577	34,665	**32,315**	27,643	25,661
OTHER INCOME							
Trading gain on securities		**1,006**	5,400	1,311	**817**	5,398	1,254
Fees and commissions		**8,340**	7,998	7,530	**6,672**	6,094	5,899
Income from foreign exchange trading		**2,347**	1,951	1,545	**2,000**	1,601	1,190
Income attributable to insurance operations	2	**1,413**	1,360	1,109	**-**	-	-
Other operating income	20	**11,369**	8,955	10,650	**14,527**	11,730	8,051
Gross receipts tax		**(1,494)**	(1,490)	(1,427)	**(1,069)**	(1,210)	(1,169)
		22,981	24,174	20,718	**22,947**	23,613	15,225
OTHER EXPENSES							
Compensation and fringe benefits	22	**13,897**	13,463	12,463	**10,691**	10,713	9,949
Occupancy and equipment-related expenses	11,12,21	**11,344**	10,156	9,194	**9,062**	8,172	7,314
Other operating expenses	22	**13,292**	11,322	10,213	**9,626**	8,148	7,529
		38,533	34,941	31,870	**29,379**	27,033	24,792
INCOME BEFORE INCOME TAX		**28,692**	26,810	23,513	**25,883**	24,223	16,094
PROVISION FOR INCOME TAX	23						
Current		**6,418**	5,419	5,736	**4,248**	3,777	4,269
Deferred	14	**(462)**	(884)	(598)	**(462)**	(439)	(238)
		5,956	4,535	5,138	**3,786**	3,338	4,031
NET INCOME FOR THE YEAR		**22,736**	22,275	18,375	**22,097**	20,885	12,063
Attributable to:							
Equity holders of BPI		**22,416**	22,050	18,234	**22,097**	20,885	12,063
Non-controlling interests		**320**	225	141	**-**	-	-
		22,736	22,275	18,375	**22,097**	20,885	12,063
Earnings per share for net income attributable to the equity holders of BPI during the year:							
Basic and diluted	19	**5.69**	5.60	4.64	**5.61**	5.30	3.07

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

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF COMPREHENSIVE INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017
(In Millions of Pesos)

		Consolidated			Parent		
	Note	**2017**	2016	2015	**2017**	2016	2015
NET INCOME FOR THE YEAR		**22,736**	22,275	18,375	**22,097**	20,885	12,063
OTHER COMPREHENSIVE INCOME (LOSS)	19						
Items that may be subsequently reclassified to profit or loss							
Net change in fair value reserve on available-for-sale securities, net of tax effect		**713**	543	(526)	**449**	502	(153)
Share in other comprehensive loss of associates		**(252)**	(74)	(451)	**-**	-	-
Fair value reserve on investments of insurance subsidiaries, net of tax effect		**196**	(131)	(334)	**-**	-	-
Currency translation differences		**126**	(113)	77	**-**	-	-
Items that will not be reclassified to profit or loss							
Actuarial losses on defined benefit plan, net of tax effect		**(272)**	(579)	(382)	**(338)**	(429)	(225)
Share in other comprehensive loss of associates		**(528)**	-	-	**-**	-	-
Total other comprehensive (loss) income, net of tax effect		**(17)**	(354)	(1,616)	**111**	73	(378)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**22,719**	21,921	16,759	**22,208**	20,958	11,685
Attributable to:							
Equity holders of BPI		**22,406**	21,736	16,693	**22,208**	20,958	11,685
Non-controlling interests		**313**	185	66	**-**	-	-
		22,719	21,921	16,759	**22,208**	20,958	11,685

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

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017
(In Millions of Pesos)

	Consolidated							
	Attributable to equity holders of BPI (Note 19)							
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total	Non-controlling interests	Total equity
Balance, January 1, 2015	**39,272**	**29,341**	**2,098**	**76,575**	**(3,223)**	**144,063**	**2,616**	**146,679**
Comprehensive income								
Net income for the year	-	-	-	18,234	-	18,234	141	18,375
Other comprehensive loss for the year	-	-	-	-	(1,541)	(1,541)	(75)	(1,616)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**18,234**	**(1,541)**	**16,693**	**66**	**16,759**
Transactions with owners								
Proceeds from the stock rights offering	-	1	-	-	-	1	-	1
Executive stock plan amortization	13	97	33	-	-	143	-	143
Cash dividends	-	-	-	(10,617)	-	(10,617)	-	(10,617)
Other changes in non-controlling interests	-	-	-	-	-	-	(236)	(236)
Total transactions with owners	**13**	**98**	**33**	**(10,617)**	**-**	**(10,473)**	**(236)**	**(10,709)**
Other movements								
Transfer from surplus to reserves	-	-	432	(432)	-	-	-	-
Others	-	-	-	1	-	1	-	1
Total other movements	**-**	**-**	**432**	**(431)**	**-**	**1**	**-**	**1**
Balance, December 31, 2015	**39,285**	**29,439**	**2,563**	**83,761**	**(4,764)**	**150,284**	**2,446**	**152,730**
Comprehensive income								
Net income for the year	-	-	-	22,050	-	22,050	225	22,275
Other comprehensive loss for the year	-	-	-	-	(314)	(314)	(40)	(354)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**22,050**	**(314)**	**21,736**	**185**	**21,921**
Transactions with owners								
Executive stock plan amortization	23	152	45	-	-	220	-	220
Cash dividends	-	-	-	(7,087)	-	(7,087)	-	(7,087)
Change in ownership interest in a subsidiary	-	-	-	(19)	-	(19)	(10)	(29)
Other changes in non-controlling interests	-	-	-	-	-	-	(71)	(71)
Total transactions with owners	**23**	**152**	**45**	**(7,106)**	**-**	**(6,886)**	**(81)**	**(6,967)**
Other movement								
Transfer from surplus to reserves	-	-	103	(103)	-	-	-	-
Total other movement	**-**	**-**	**103**	**(103)**	**-**	**-**	-	-
Balance, December 31, 2016	**39,308**	**29,591**	**2,711**	**98,602**	**(5,078)**	**165,134**	**2,550**	**167,684**
Comprehensive income								
Net income for the year	-	-	-	22,416	-	22,416	320	22,736
Other comprehensive loss for the year	-	-	-	-	(10)	(10)	(7)	(17)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**22,416**	**(10)**	**22,406**	**313**	**22,719**
Transactions with owners								
Executive stock plan amortization	28	180	31	-	-	239	-	239
Cash dividends	-	-	-	(7,091)	-	(7,091)	-	(7,091)
Total transactions with owners	**28**	**180**	**31**	**(7,091)**	**-**	**(6,852)**	**-**	**(6,852)**
Other movements								
Transfer from surplus to reserves	-	-	90	(90)	-	-	-	-
Transfer from reserves to surplus	-	-	(2,578)	2,578	-	-	-	-
Total other movements	**-**	**-**	**(2,488)**	**2,488**	**-**	**-**	**-**	**-**
Balance, December 31, 2017	**39,336**	**29,771**	**254**	**116,415**	**(5,088)**	**180,688**	**2,863**	**183,551**

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

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017
(In Millions of Pesos)

	Parent (Note 19)					
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2015	**39,272**	**29,341**	**2,095**	**41,388**	**(4,501)**	**107,595**
Comprehensive income						
Net income for the year	-	-	-	12,063	-	12,063
Other comprehensive loss for the year	-	-	-	-	(378)	(378)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**12,063**	**(378)**	**11,685**
Transactions with owners						
Issuance of shares	-	1	-	-	-	1
Executive stock plan amortization	13	97	28	-	-	138
Cash dividends	-	-	-	(10,617)	-	(10,617)
Total transactions with owners	13	98	28	(10,617)	-	(10,478)
Other movements						
Transfer from surplus to reserves	-	-	432	(432)	-	-
Others	-	-	-	(1)	(1)	(2)
Total other movements	**-**	**-**	**432**	**(433)**	**(1)**	**(2)**
Balance, December 31, 2015	**39,285**	**29,439**	**2,555**	**42,401**	**(4,880)**	**108,800**
Comprehensive income						
Net income for the year	-	-	-	20,885	-	20,885
Other comprehensive income for the year	-	-	-	-	73	73
Total comprehensive income for the year	**-**	**-**	**-**	**20,885**	**73**	**20,958**
Transactions with owners						
Executive stock plan amortization	23	152	37	-	-	212
Cash dividends	-	-	-	(7,087)	-	(7,087)
Total transactions with owners	**23**	**152**	**37**	**(7,087)**	**-**	**(6,875)**
Other movements						
Transfer from surplus to reserves	-	-	103	(103)	-	-
Others	-	-	-	(1)	-	(1)
Total other movements	**-**	**-**	**-**	**(104)**	**-**	**(1)**
Balance, December 31, 2016	**39,308**	**29,591**	**2,695**	**56,095**	**(4,807)**	**122,882**
Comprehensive income						
Net income for the year	-	-	-	22,097	-	22,097
Other comprehensive income for the year	-	-	-	-	111	111
Total comprehensive income for the year	**-**	**-**	**-**	**22,097**	**111**	**22,208**
Transactions with owners						
Executive stock plan amortization	28	180	25	-	-	233
Cash dividends	-	-	-	(7,091)	-	(7,091)
Other movement						
Transfer from reserves to surplus	-	-	(2,578)	2,578	-	-
Total transactions with owners	**28**	**180**	**(2,553)**	**(4,513)**	**-**	**(6,858)**
Balance, December 31, 2017	**39,336**	**29,771**	**142**	**73,679**	**(4,696)**	**138,232**

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

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017
(In Millions of Pesos)

		Consolidated			Parent		
	Notes	**2017**	2016	2015	**2017**	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES							
Income before income tax		**28,692**	26,810	23,513	**25,883**	24,223	16,094
Adjustments for:							
Impairment losses	8,10,15	**3,795**	4,800	3,976	**3,519**	2,930	2,298
Depreciation and amortization	11,12	**4,255**	3,878	3,661	**2,783**	2,541	2,347
Share in net income of associates	13	**(772)**	(814)	(627)	**-**	-	-
Dividend and other income	20,31	**(68)**	(56)	(1,554)	**(9,492)**	(6,083)	(1,895)
Share-based compensation	19	**31**	45	33	**25**	37	28
Interest income		**(68,053)**	(60,297)	(54,027)	**(49,783)**	(42,030)	(37,704)
Interest expense		**17,810**	15,935	13,658	**12,298**	10,022	8,498
Interest received		**66,816**	59,447	53,556	**48,753**	41,369	37,411
Interest paid		**(17,495)**	(15,716)	(13,509)	**(11,901)**	(9,920)	(8,470)
(Increase) decrease in:							
Interbank loans receivable and securities purchased under agreements to resell		**595**	1,316	650	**(353)**	2,381	820
Trading securities		**9,272**	(6,507)	7,746	**6,498**	(4,861)	1,152
Loans and advances, net		**(164,957)**	(171,462)	(76,140)	**(168,485)**	(159,101)	(45,371)
Assets held for sale		**313**	1,007	941	**447**	1,119	1,022
Assets attributable to insurance operations		**(944)**	(54)	(374)	**-**	-	-
Other resources		**(3,940)**	(2,269)	1,996	**(6,745)**	(2,056)	1,744
Increase (decrease) in:							
Deposit liabilities		**130,900**	155,601	99,487	**139,485**	151,093	80,704
Due to Bangko Sentral ng Pilipinas and other banks		**548**	239	(256)	**548**	239	(257)
Manager's checks and demand drafts outstanding		**(557)**	(729)	(46)	**(131)**	(800)	29
Accrued taxes, interest and other expenses		**(51)**	947	(218)	**(252)**	579	(104)
Liabilities attributable to insurance operations		**146**	(281)	1,088	**-**	-	-
Derivative financial instruments		**(311)**	1,432	(177)	**(306)**	1,433	(179)
Deferred credits and other liabilities		**7,550**	(3,122)	(496)	**6,037**	(2,692)	(139)
Net cash from (used in) operations		**13,575**	10,150	62,881	**(1,172)**	10,423	58,028
Income taxes paid		**(6,505)**	(5,645)	(5,853)	**(4,395)**	(3,974)	(4,371)
Net cash from (used in) operating activities		**7,070**	4,505	57,028	**(5,567)**	6,449	53,657

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017
(In Millions of Pesos)

		Consolidated			Parent		
	Notes	**2017**	2016	2015	**2017**	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES							
(Increase) decrease in:							
Available-for-sale securities, net	8	**1,702**	18,435	8,027	**9,907**	17,519	4,623
Held-to-maturity securities	9	**(8,731)**	(23,874)	(34,995)	**(9,180)**	(21,078)	(31,722)
Bank premises, furniture, fixtures and equipment, net	11	**(4,191)**	(4,109)	(1,503)	**(2,018)**	(2,543)	(406)
Investment properties, net		**-**	(35)	-	**-**	-	-
Investment in subsidiaries and associates, net		**745**	28	(1,983)	**(95)**	(880)	(1,342)
Assets attributable to insurance operations		**58**	(136)	589	**-**	-	-
Dividends received	20	**68**	56	48	**9,492**	6,084	389
Net cash (used in) from investing activities		**(10,349)**	(9,635)	(29,817)	**8,106**	(898)	(28,458)
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash dividends paid		**(7,089)**	(7,082)	(7,078)	**(7,089)**	(7,082)	(7,078)
Collection on stock subscriptions		**207**	175	112	**207**	175	112
Increase (decrease) in bills payable		**21,544**	41,032	(12,052)	**18,466**	39,431	(13,462)
Net cash from (used in) financing activities		**14,662**	34,125	(19,018)	**11,584**	32,524	(20,428)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**11,383**	28,995	8,193	**14,123**	38,075	4,771
CASH AND CASH EQUIVALENTS							
January 1	4	**310,746**	281,751	273,558	**266,456**	228,381	223,610
December 31		**322,129**	310,746	281,751	**280,579**	266,456	228,381

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

BANK OF THE PHILIPPINE ISLANDS

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2017 and 2016 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2017

Note 1 - General Information

Bank of the Philippine Islands ("BPI" or the "Parent Bank") is a domestic commercial bank with an expanded banking license and has its registered office address, which is also its principal place of business, at BPI Building, Ayala Avenue corner Paseo de Roxas, Makati City. BPI and its subsidiaries as detailed in Note 31.3 (collectively referred to as the "BPI Group") offer a whole breadth of financial services that include corporate banking, consumer banking, investment banking, asset management, corporate finance, securities distribution, and insurance services. At December 31, 2017, the BPI Group has 17,047 employees (2016 - 15,201 employees) and operates 839 branches and 3,105 ATMs (2016 - 834 branches and 3,061 ATMs) to support its delivery of services. The BPI Group also serves its customers through alternative electronic banking channels such as telephone, mobile phone and the internet. The Parent Bank was registered with the Securities and Exchange Commission (SEC) on January 4, 1943. This license was extended for another 50 years on January 4, 1993.

The Parent Bank is considered a public company under Rule 3.1 of Implementing Rules and Regulations of the Securities Regulation Code, which, among others, defines a public company as any corporation with a class of equity securities listed on an exchange, or with assets of at least P50 million and having 200 or more shareholders, each of which holds at least 100 shares of its equity securities. Likewise, BPI is a listed entity with its shares traded in the Philippine Stock Exchange (PSE) since October 12, 1971. As at December 31, 2017, the Parent Bank has 11,488 common shareholders (2016 - 11,596).

These financial statements have been approved and authorized for issuance by the Board of Directors of the Parent Bank on January 31, 2018. There are no material events that occurred subsequent to January 31, 2018 until February 8, 2018.

Note 2 - Assets and Liabilities Attributable to Insurance Operations

Details of assets and liabilities attributable to insurance operations at December 31 are as follows:

	2017	2016
	(In Millions of Pesos)	
Assets		
Cash and cash equivalents (Note 4)	**316**	122
Insurance balances receivable, net	**5,849**	4,929
Investment securities		
Available-for-sale	**5,970**	6,020
Held-to-maturity	**2,674**	2,681
Investment in associates	**167**	-
Accounts receivable and other assets, net	**2,286**	2,424
Land, building and equipment	**144**	150
	17,406	16,326
Liabilities		
Reserves and other balances	**13,416**	13,118
Accounts payable, accrued expenses and other payables	**1,097**	1,249
	14,513	14,367

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

	2017	2016	2015
	(In Millions of Pesos)		
Premiums earned and related income	**3,624**	3,356	3,071
Investment and other income	**864**	959	801
	4,488	4,315	3,872
Benefits, claims and maturities	**2,006**	2,025	1,655
Decrease in actuarial reserve liabilities	**(524)**	(462)	(159)
Management and general expenses	**791**	656	575
Commissions	**789**	726	681
Other expenses	**13**	10	11
	3,075	2,955	2,763
Income before income tax and minority interest	**1,413**	1,360	1,109

Note 3 - Business Segments

Operating segments are reported in accordance with the internal reporting provided to the chief executive officer, who is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments used by the BPI Group meet the definition of a reportable segment under Philippine Financial Reporting Standards (PFRS) 8, Operating Segments.

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

The BPI Group's main operating business segments follow:

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

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

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

The performance of the Parent Bank is assessed as a single unit using financial information presented in the separate or Parent only financial statements. Likewise, the chief executive officer assesses the performance of its insurance business as a separate segment from its banking and allied financial undertakings. Information on the assets, liabilities and results of operations of the insurance business is fully disclosed in Note 2.

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

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

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

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

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

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

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

	2017			
	Consumer banking	**Corporate banking**	**Investment banking**	**Total per management reporting**
	(In Millions of Pesos)			
Net interest income	28,083	10,195	13,384	**51,662**
Impairment charge	2,085	1,710	5	**3,800**
Net interest income after impairment charge	25,998	8,485	13,379	**47,862**
Fees and commission income	6,080	1,062	1,456	**8,598**
Other income	6,992	1,676	5,611	**14,279**
Gross receipts tax	(924)	(81)	(373)	**(1,378)**
Other income, net	12,148	2,657	6,694	**21,499**
Compensation and fringe benefits	9,311	1,335	1,020	**11,666**
Occupancy and equipment - related expenses	4,242	1,210	125	**5,577**
Other operating expenses	13,512	2,706	1,652	**17,870**
Total operating expenses	27,065	5,251	2,797	**35,113**
Operating profit	11,081	5,891	17,276	**34,248**
Share in net income of associates				**772**
Provision for income tax				**5,956**
Total assets	476,749	1,007,058	389,085	**1,872,892**
Total liabilities	1,063,069	550,367	85,946	**1,699,382**

	2016			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Net interest income	29,225	9,724	6,374	45,323
Impairment charge	3,072	1,692	7	4,771
Net interest income after impairment charge	26,153	8,032	6,367	40,552
Fees and commission income	5,986	851	1,326	8,163
Other income	5,072	1,667	9,423	16,162
Gross receipts tax	(724)	(72)	(630)	(1,426)
Other income, net	10,334	2,446	10,119	22,899
Compensation and fringe benefits	9,133	1,279	1,035	11,447
Occupancy and equipment - related expenses	4,146	1,135	55	5,336
Other operating expenses	12,056	1,535	1,477	15,068
Total operating expenses	25,335	3,949	2,567	31,851
Operating profit	11,152	6,529	13,919	31,600
Share in net income of associates				814
Provision for income tax				4,535
Total assets	536,231	770,413	386,550	1,693,194
Total liabilities	1,459,741	14,587	61,326	1,535,654

	2015			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Net interest income	22,487	5,982	12,091	40,560
Impairment charge	2,552	1,195	72	3,819
Net interest income after impairment charge	19,935	4,787	12,019	36,741
Fees and commission income	6,026	582	1,135	7,743
Other income	6,657	1,616	5,330	13,603
Gross receipts tax	(834)	(58)	(488)	(1,380)
Other income, net	11,849	2,140	5,977	19,966
Compensation and fringe benefits	8,733	1,116	905	10,754
Occupancy and equipment - related expenses	4,435	1,170	80	5,685
Other operating expenses	9,826	2,239	1,312	13,377
Total operating expenses	22,994	4,525	2,297	29,816
Operating profit	8,790	2,402	15,699	26,891
Share in net income of associates				627
Provision for income tax				5,138
Total assets	506,593	634,840	348,058	1,489,491
Total liabilities	1,304,298	14,163	23,578	1,342,039

Reconciliation of segment results to consolidated results of operations:

	2017		
	Total per management reporting	**Consolidation adjustments/ Others**	**Total per consolidated financial statements**
	(In Millions of Pesos)		
Net interest income	**51,662**	(3,623)	**48,039**
Impairment charge	**3,800**	(5)	**3,795**
Net interest income after impairment charge	**47,862**	(3,618)	**44,244**
Fees and commission income	**8,598**	(258)	**8,340**
Other income	**14,279**	1,856	**16,135**
Gross receipts tax	**(1,378)**	(116)	**(1,494)**
Other income, net	**21,499**	1,482	**22,981**
Compensation and fringe benefits	**11,666**	2,231	**13,897**
Occupancy and equipment - related expenses	**5,577**	5,767	**11,344**
Other operating expenses	**17,870**	(4,578)	**13,292**
Total operating expenses	**35,113**	3,420	**38,533**
Operating profit	**34,248**	(5,556)	**28,692**
Share in net income of associates (included in Other income)	**772**	-	**772**
Provision for income tax	**5,956**	-	**5,956**
Total assets	**1,872,892**	31,013	**1,903,905**
Total liabilities	**1,699,382**	20,972	**1,720,354**

	2016		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	45,323	(2,946)	42,377
Impairment charge	4,771	29	4,800
Net interest income after impairment charge	40,552	(2,975)	37,577
Fees and commission income	8,163	(165)	7,998
Other income	16,162	1,504	17,666
Gross receipts tax	(1,426)	(64)	(1,490)
Other income, net	22,899	1,275	24,174
Compensation and fringe benefits	11,447	2,016	13,463
Occupancy and equipment - related expenses	5,336	4,820	10,156
Other operating expenses	15,068	(3,746)	11,322
Total operating expenses	31,851	3,090	34,941
Operating profit	31,600	(4,790)	26,810
Share in net income of associates (included in Other income)	814	-	814
Provision for income tax	4,535	-	4,535
Total assets	1,693,194	32,502	1,725,696
Total liabilities	1,535,654	22,358	1,558,012

	2015		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	40,560	(1,919)	38,641
Impairment charge	3,819	157	3,976
Net interest income after impairment charge	36,741	(2,076)	34,665
Fees and commission income	7,743	(213)	7,530
Other income	13,603	1,012	14,615
Gross receipts tax	(1,380)	(47)	(1,427)
Other income, net	19,966	752	20,718
Compensation and fringe benefits	10,754	1,709	12,463
Occupancy and equipment - related expenses	5,685	3,509	9,194
Other operating expenses	13,377	(3,164)	10,213
Total operating expenses	29,816	2,054	31,870
Operating profit	26,891	(3,378)	23,513
Share in net income of associates (included in Other income)	627	-	627
Provision for income tax	5,138	-	5,138
Total assets	1,489,491	26,865	1,516,356
Total liabilities	1,342,039	21,587	1,363,626

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

Note 4 - Cash and Cash Equivalents

The account at December 31 consists of:

	Consolidated		**Parent**	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Cash and other cash items	**35,132**	35,692	**34,160**	34,855
Due from Bangko Sentral ng Pilipinas (BSP)	**255,948**	239,514	**227,122**	203,743
Due from other banks	**14,406**	23,037	**10,894**	20,558
Interbank loans receivable and securities purchased under agreements to resell (Note 5)	**16,327**	12,381	**8,403**	7,300
Cash and cash equivalents attributable to insurance operations (Note 2)	**316**	122	**-**	-
	322,129	310,746	**280,579**	266,456

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

The account at December 31 consists of transactions with:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
BSP	**7,297**	4,576	**-**	-
Other banks	**11,268**	10,651	**10,494**	9,042
	18,565	15,227	**10,494**	9,042
Accrued interest receivable	**21**	9	**10**	7
	18,586	15,236	**10,504**	9,049

As at December 31, 2017, Interbank loans receivable and SPAR maturing within 90 days from the date of acquisition amounting to P16,327 million (2016 - P12,381 million) for BPI Group and P8,403 million (2016 - P7,300 million) for the Parent Bank are classified as cash equivalents in the statement of cash flows (Note 4).

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Current	**18,123**	14,721	**10,041**	8,688
Non-current	**463**	515	**463**	361
	18,586	15,236	**10,504**	9,049

Government bonds are pledged by the BSP as collateral under reverse repurchase agreements. The face value of securities pledged is equivalent to the total balance of outstanding placements as at reporting date. All collateral agreements mature within 12 months.

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

	Consolidated		Parent	
	2017	2016	**2017**	2016
Peso-denominated	**2.96 - 3.07**	3.32 - 4.14	**3.04 - 3.35**	3.29 - 4.41
US dollar-denominated	**0.73 - 1.04**	0.13 - 1.76	**0.73 - 1.04**	0.13 - 1.76

Note 6 - Derivative Financial Instruments

Derivatives held by the BPI Group for non-hedging purposes mainly consist of the following:

- Foreign exchange forwards represent commitments to purchase or sell one currency against another at an agreed forward rate on a specified date in the future. Settlement can be made via full delivery of forward proceeds or via payment of the difference (non-deliverable forward) between the contracted forward rate and the prevailing market rate on maturity.

- Foreign exchange swaps refer to spot purchase or sale of one currency against another with an agreement to sell or purchase the same currency at an agreed forward rate in the future.

- Interest rate swaps refer to agreement to exchange fixed rate versus floating interest payments (or vice versa) on a reference notional amount over an agreed period of time.

- Cross currency swaps refer to spot exchange of notional amounts on two currencies at a given exchange rate and with an agreement to re-exchange the same notional amounts at a specified maturity date based on the original exchange rate. Parties on the transaction agree to pay a stated interest rate on the borrowed notional amount and receive a stated interest rate on the lent notional amount, payable or receivable periodically over the term of the transaction.

- Credit-linked notes (CLNs) are structured notes whose value is derived from the creditworthiness of an underlying reference entity. A CLN may be viewed as a bundled note that consists of a bond and a credit default swap, allowing the issuer to transfer the credit risk of a reference entity to the investor during the reference period.

The BPI Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the BPI Group assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the statement of condition. They do not necessarily represent the amounts of future cash flows involved or the current fair values of the instruments and therefore are not indicative of the BPI Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand and the extent at which the instruments can become favorable or unfavorable in fair values can fluctuate significantly from time to time.

The contract/notional amount and fair values of derivative instruments held for trading as at December 31 are set out below:

Consolidated

	Contract/ Notional Amount		Fair Values			
			Assets		Liabilities	
	2017	2016	**2017**	2016	**2017**	2016
			(In Millions of Pesos)			
Free-standing derivatives						
Foreign exchange derivatives						
Currency swaps	**153,784**	101,378	**2,312**	926	**2,117**	826
Currency forwards	**179,999**	103,040	**1,153**	963	**1,290**	1,037
Interest rate swaps	**206,493**	148,432	**1,478**	1,028	**1,377**	1,243
Credit default swaps	**499**	994	**-**	-	**4**	6
Embedded credit derivatives	**8,688**	8,651	**38**	76	**-**	-
	549,463	362,495	**4,981**	2,993	**4,788**	3,112

Parent

	Contract/ Notional Amount		Fair Values			
			Assets		Liabilities	
	2017	2016	**2017**	2016	**2017**	2016
			(In Millions of Pesos)			
Free-standing derivatives						
Foreign exchange derivatives						
Currency swaps	**153,784**	101,378	**2,312**	926	**2,117**	826
Currency forwards	**179,999**	103,040	**1,153**	963	**1,290**	1,037
Interest rate swaps	**206,493**	148,432	**1,478**	1,028	**1,377**	1,243
Credit default swaps	**499**	994	**-**	-	**4**	6
Embedded credit derivatives	**8,688**	8,651	**32**	76	**-**	-
	549,463	362,495	**4,975**	2,993	**4,788**	3,112

Note 7 - Trading Securities

The account at December 31 consists of:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Debt securities				
Government securities	**4,943**	9,162	**3,790**	5,372
Commercial papers of private companies	**29**	5,286	**-**	4,914
	4,972	14,448	**3,790**	10,286
Accrued interest receivable	**30**	31	**16**	28
	5,002	14,479	**3,806**	10,314
Equity securities - listed	**330**	124	**-**	-
	5,332	14,603	**3,806**	10,314

All trading securities are classified as current.

Note 8 - Available-for-Sale Securities

The account at December 31 consists of:

	Consolidated		Parent	
	2017	2016	**2017**	2016
Debt securities	(In Millions of Pesos)			
Government securities	**14,406**	2,205	**5,420**	1,965
Commercial papers of private companies	**4,742**	19,688	**4,193**	17,259
	19,148	21,893	**9,613**	19,224
Accrued interest receivable	**70**	69	**56**	63
	19,218	21,962	**9,669**	19,287
Equity securities				
Listed	**3,755**	2,144	**447**	399
Unlisted	**661**	516	**232**	126
	4,416	2,660	**679**	525
	23,634	24,622	**10,348**	19,812
Allowance for impairment	**(321)**	(321)	**(209)**	(209)
	23,313	24,301	**10,139**	19,603

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Current	**13,288**	13,507	**1,991**	12,836
Non-current	**10,346**	11,115	**8,357**	6,976
	23,634	24,622	**10,348**	19,812

The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**321**	330	**209**	218
Reversal of impairment losses	**-**	(9)	**-**	(9)
At December 31	**321**	321	**209**	209

The range of average interest rates (%) of available-for-sale debt securities for the years ended December 31 follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
Peso-denominated	**0.53 - 0.85**	0.98 - 1.42	**1.15 - 2.28**	2.14 - 2.60
Foreign currency-denominated	**2.10 - 2.26**	1.03 - 1.53	**2.10 - 2.31**	1.00 - 1.52

The movement in available-for-sale securities is summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**24,301**	42,287	**19,603**	36,685
Additions	**40,703**	51,831	**19,774**	50,237
Disposals and maturities	**(42,362)**	(70,231)	**(29,678)**	(67,401)
Amortization of premium, net	**(22)**	(154)	**(19)**	(81)
Fair value adjustments	**309**	517	**135**	124
Exchange differences	**383**	135	**331**	93
Net change in allowance for impairment	**-**	9	**-**	9
Net change in accrued interest receivable	**1**	(93)	**(7)**	(63)
At December 31	**23,313**	24,301	**10,139**	19,603

On various dates, the BPI Group reclassified certain available-for-sale securities to held-to-maturity category (Note 9). The reclassifications were triggered by management's change in intention over the securities in light of volatile market prices due to rising interest rates. Fair value losses recognized in other comprehensive income at the dates of reclassifications are amortized over the remaining lives of the instruments using the effective interest rate method. The relevant balances relating to the reclassified available-for-sale securities are summarized as follows:

Date of reclassification	Amount reclassified	Fair value loss at reclassification date	Unamortized fair value loss	
			2017	2016
		(In Millions of Pesos)		
November 11, 2015	P6.9 billion	505	**468**	486
January 9, 2014	P63.5 billion	4,534	**3,064**	3,471
November 12, 2008	P9.2 billion	1,757	**13**	28

The net change in fair value reserve that would have been recognized in other comprehensive income if the available-for-sale securities had not been reclassified amounts to P759 million net fair value loss for the year ended December 31, 2017 (2016 - net fair value loss of P2,801 million). There are no other gains or losses recognized in that statement of income apart from the amortization of fair value loss on securities.

Note 9 - Held-to-Maturity Securities

The account at December 31 consists of:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Government securities	**206,098**	196,210	**186,816**	176,528
Commercial papers of private companies	**67,584**	68,741	**65,138**	66,247
	273,682	264,951	**251,954**	242,775
Accrued interest receivable	**3,790**	3,532	**3,428**	3,146
	277,472	268,483	**255,382**	245,921

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Current	**13,182**	30,722	**11,849**	29,235
Non-current	**264,290**	237,761	**243,533**	216,686
	277,472	268,483	**255,382**	245,921

The range of average interest rates (%) of held-to-maturity securities for the years ended December 31 follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
Peso-denominated	**3.46 - 3.65**	3.68 - 3.88	**3.42 - 3.61**	3.65 - 3.85
Foreign currency-denominated	**2.78 - 2.93**	3.10 - 3.61	**2.80 - 2.96**	3.15 - 3.73

The movements in held-to-maturity securities are summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**268,483**	244,809	**245,921**	225,077
Additions	**53,491**	116,942	**49,659**	113,151
Maturities/disposals	**(42,021)**	(90,396)	**(38,056)**	(89,564)
Amortization of premium, net	**(2,789)**	(3,012)	**(2,518)**	(2,894)
Exchange differences	**50**	341	**94**	386
Net change in accrued interest receivable	**258**	(201)	**282**	(235)
At December 31	**277,472**	268,483	**255,382**	245,921

In June 2016, the BPI Group sold certain held-to-maturity securities aggregating P65.4 billion. The sale was triggered by the need to strengthen the capital position of the BPI Group in view of more stringent capital requirements by the BSP.

Note 10 - Loans and Advances

Major classifications of this account at December 31 are as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
Corporate entities	(In Millions of Pesos)			
Large corporate customers	**900,912**	760,558	**878,934**	743,926
Small and medium enterprise	**85,324**	83,516	**56,358**	44,672
Retail customers				
Credit cards	**49,142**	39,995	**47,829**	39,137
Real estate mortgages	**115,772**	116,079	**22**	83
Auto loans	**53,343**	53,485	**-**	-
Others	**17,324**	4,545	**16,723**	4,407
	1,221,817	1,058,178	**999,866**	832,225
Accrued interest receivable	**5,458**	4,475	**4,070**	3,321
Unearned discount/income	**(4,274)**	(3,257)	**(3,154)**	(2,273)
	1,223,001	1,059,396	**1,000,782**	833,273
Allowance for impairment	**(20,663)**	(18,676)	**(13,913)**	(11,728)
	1,202,338	1,040,720	**986,869**	821,545

The Parent balances above include amounts due from related parties (Note 27). The Consolidated balances above also include amounts due from related parties (Note 27) except for accounts considered as intercompany transactions that are eliminated accordingly.

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Current	**521,688**	454,072	**489,240**	426,403
Non-current	**701,313**	605,324	**511,542**	406,870
	1,223,001	1,059,396	**1,000,782**	833,273

The current loan and advances balances are those which are expected to be realized within 12 months after reporting date while the non-current balances pertain to those expected to be collected beyond 12 months after reporting date.

The amount of loans and advances above includes finance lease receivables as follows:

	Consolidated	
	2017	2016
	(In Millions of Pesos)	
Total future minimum lease collections	**9,102**	7,982
Unearned finance income	**(1,003)**	(910)
Present value of future minimum lease collections	**8,099**	7,072
Allowance for impairment	**(251)**	(213)
	7,848	6,859

Details of future minimum lease collections follow:

	Consolidated	
	2017	2016
	(In Millions of Pesos)	
Not later than one year	**3,371**	2,944
Later than one year but not later than five years	**5,323**	5,015
More than five years	**408**	23
	9,102	7,982
Unearned finance income	**(1,003)**	(910)
	8,099	7,072

The BPI Group, through BPI Century Tokyo Lease and Finance Corporation, mainly leases out vehicle and equipment under various finance lease agreements which typically run for a non-cancellable period of two to five years. The contracts generally include an option to purchase the leased asset after the lease period at a price that generally lies between 5% to 20% of the fair value of the asset at the inception of the lease. In the event that the residual value of the leased asset exceeds the guaranteed deposit liability at the end of the lease term, the BPI Group receives additional payment from the lessee prior to the transfer of the leased asset. On the other hand, the BPI Group sets up a liability to the lessee for any excess of the guaranteed deposit liability over residual value of the leased asset.

The Parent Bank has no finance lease receivables as at December 31, 2017 and 2016.

There is no contingent rent recognized as income during the years ended December 31, 2017 and 2016.

Details of the loans and advances portfolio of the BPI Group at December 31 are as follows:

1) As to industry/economic sector (in %)

	Consolidated		Parent	
	2017	2016	**2017**	2016
Real estate, renting and other related activities	**22.59**	23.06	**15.46**	15.25
Manufacturing	**16.23**	15.93	**19.41**	19.48
Wholesale and retail trade	**11.50**	11.53	**12.96**	12.61
Consumer	**8.78**	9.21	**5.30**	5.08
Financial institutions	**7.56**	9.48	**9.11**	11.85
Agriculture and forestry	**3.31**	4.03	**3.98**	5.04
Others	**30.03**	26.76	**33.78**	30.69
	100.00	100.00	**100.00**	100.00

2) As to collateral

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	**195,432**	241,363	**79,768**	103,191
Chattel mortgage	**64,420**	61,484	**168**	178
Others	**313,441**	334,039	**305,296**	324,056
	573,293	636,886	**385,232**	427,425
Unsecured loans	**644,250**	418,035	**611,480**	402,527
	1,217,543	1,054,921	**996,712**	829,952

Other collaterals include hold-out deposits, mortgage trust indentures, government and corporate securities and bonds, quedan/warehouse receipts, standby letters of credit, trust receipts, and deposit substitutes.

Loans and advances aggregating P280 million (2016 - P312 million) and P280 million (2016 - P280 million) are used as security for bills payable (Note 17) of the BPI Group and the Parent Bank, respectively.

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

	Consolidated		Parent	
	2017	2016	**2017**	2016
Commercial loans				
Peso-denominated loans	**3.97 - 4.19**	4.11 - 4.16	3.76 - 4.02	3.88 - 3.94
Foreign currency-denominated loans	**2.94 - 3.36**	2.66 - 2.84	2.94 - 3.36	2.66 - 2.84
Real estate mortgages	**6.60 - 7.09**	6.75 - 6.97	6.67 - 8.00	5.72 - 8.00
Auto loans	**9.27 - 9.41**	9.51 - 9.68	-	-

Non-performing accounts (over 30 days past due) of the BPI Group and the Parent Bank, net of specific allowance for credit losses, following BSP Circular 772 are as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Non-performing accounts (NPL 30)	**16,255**	15,792	**8,038**	7,654
Specific allowance for credit losses	**10,479**	10,070	**5,395**	5,033
Net NPL 30	**5,776**	5,722	**2,643**	2,621

Reconciliation of allowance for impairment by class at December 31 follows:

Consolidated

	2017						
	Corporate entities		Retail customers				
	Large corporate customers	Small and medium enterprises	Credit cards	Real estate mortgages	Auto loans	Others	**Total**
				(In Millions of Pesos)			
At January 1	7,281	3,687	2,583	1,838	2,844	443	**18,676**
Provision (reversal) for impairment losses	1,820	(55)	1,912	102	350	188	**4,317**
Write-off/disposal	(68)	-	(1,275)	-	(168)	(146)	**(1,657)**
Unwind of discount	(83)	(29)	-	-	-	-	**(112)**
Transfers	(21)	(119)	-	(54)	(252)	(115)	**(561)**
At December 31	**8,929**	**3,484**	**3,220**	**1,886**	**2,774**	**370**	**20,663**

	2016						
	Corporate entities		Retail customers				
	Large corporate customers	Small and medium enterprises	Credit cards	Real estate mortgages	Auto loans	Others	Total
				(In Millions of Pesos)			
At January 1	6,406	3,039	2,751	1,791	2,010	365	16,362
Provision for impairment losses	1,066	940	1,448	143	1,185	173	4,955
Write-off/disposal	(168)	(168)	(1,618)	(28)	(177)	(94)	(2,253)
Unwind of discount	(134)	(56)	-	-	-	-	(190)
Transfers	111	(68)	2	(68)	(174)	(1)	(198)
At December 31	7,281	3,687	2,583	1,838	2,844	443	18,676

Parent

	2017						
	Corporate entities		Retail customers				
	Large corporate customers	Small and medium enterprises	Credit cards	Real estate mortgages	Auto loans	Others	**Total**
				(In Millions of Pesos)			
At January 1	6,433	2,457	2,523	13	-	302	**11,728**
Provision for impairment losses	1,809	87	1,837	(1)	-	148	**3,880**
Write-off/disposal	(64)	-	(1,253)	-	-	(143)	**(1,460)**
Unwind of discount	(83)	(29)	-	-	-		**(112)**
Transfers	7	(128)	-	-	-	(2)	**(123)**
At December 31	**8,102**	**2,387**	**3,107**	**12**	**-**	**305**	**13,913**

	2016						
	Corporate entities		Retail customers				
	Large corporate customers	Small and medium enterprises	Credit cards	Real estate mortgages	Auto loans	Others	Total
				(In Millions of Pesos)			
At January 1	5,406	2,228	2,711	24	-	255	10,624
Provision for impairment losses	1,267	417	1,391	17	-	142	3,234
Write-off/disposal	(159)	(85)	(1,581)	(18)	-	(94)	(1,937)
Unwind of discount	(134)	(56)	-	-	-	-	(190)
Transfers	53	(47)	2	(10)	-	(1)	(3)
At December 31	6,433	2,457	2,523	13	-	302	11,728

Transfers pertain to reclassification of allowance for impairment between accounts.

Note 11 - Bank Premises, Furniture, Fixtures and Equipment

The account at December 31 consists of:

Consolidated

	2017				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2017	3,075	6,910	14,357	4,852	**29,194**
Additions	-	1,354	1,770	2,387	**5,511**
Disposals	(65)	(189)	(848)	(1,734)	**(2,836)**
Amortization	-	(284)	-	-	**(284)**
Transfers (Note 12)	13	1,798	(2)	-	**1,809**
December 31, 2017	**3,023**	**9,589**	**15,277**	**5,505**	**33,394**
Accumulated depreciation					
January 1, 2017	-	3,110	10,687	1,588	**15,385**
Depreciation	-	309	1,600	1,125	**3,034**
Disposals	-	(111)	(537)	(971)	**(1,619)**
Transfers (Note 12)	-	1,540	(2)	-	**1,538**
December 31, 2017	**-**	**4,848**	**11,748**	**1,742**	**18,338**
Net book value, December 31, 2017	**3,023**	**4,741**	**3,529**	**3,763**	**15,056**

	2016				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2016	3,070	6,564	13,961	4,721	28,316
Additions	3	572	2,540	2,099	5,214
Disposals	(8)	(6)	(2,144)	(1,968)	(4,126)
Amortization	-	(185)	-	-	(185)
Transfers	10	(35)	-	-	(25)
December 31, 2016	3,075	6,910	14,357	4,852	29,194
Accumulated depreciation					
January 1, 2016	-	2,784	10,994	1,712	15,490
Depreciation	-	327	1,552	1,063	2,942
Disposals/transfers	-	(1)	(1,859)	(1,187)	(3,047)
December 31, 2016	-	3,110	10,687	1,588	15,385
Net book value, December 31, 2016	3,075	3,800	3,670	3,264	13,809

Parent

	2017			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2017	2,660	6,047	13,156	**21,863**
Additions	-	1,023	1,452	**2,475**
Disposals	-	(78)	(757)	**(835)**
Amortization	-	(233)	-	**(233)**
Transfers (Note 12)	-	1,823	-	**1,823**
December 31, 2017	**2,660**	**8,582**	**13,851**	**25,093**
Accumulated depreciation				
January 1, 2017	-	2,722	9,746	**12,468**
Depreciation	-	270	1,437	**1,707**
Disposals	-	(41)	(487)	**(528)**
Transfers (Note 12)	-	1,541	-	**1,541**
December 31, 2017	**-**	**4,492**	**10,696**	**15,188**
Net book value, December 31, 2017	**2,660**	**4,090**	**3,155**	**9,905**

	2016			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2016	2,657	5,758	12,866	21,281
Additions	-	458	2,307	2,765
Disposals	(7)	(5)	(2,017)	(2,029)
Amortization	-	(129)	-	(129)
Transfers	10	(35)	-	(25)
December 31, 2016	2,660	6,047	13,156	21,863
Accumulated depreciation				
January 1, 2016	-	2,440	10,126	12,566
Depreciation	-	285	1,413	1,698
Disposals/transfers	-	(3)	(1,793)	(1,796)
December 31, 2016	-	2,722	9,746	12,468
Net book value, December 31, 2016	2,660	3,325	3,410	9,395

Depreciation is included in Occupancy and equipment-related expenses in the statement of income.

Note 12 - Investment Properties

The account at December 31 consists of:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Land	**97**	97	**97**	97
Buildings	**90**	2,067	**90**	2,067
	187	2,164	**187**	2,164
Accumulated depreciation	**(50)**	(1,493)	**(50)**	(1,493)
Allowance for impairment	**(2)**	(2)	**(2)**	(2)
	135	669	**135**	669

The movement in investment properties is summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**669**	733	**669**	733
Transfers	**(434)**	35	**(434)**	35
Depreciation	**(100)**	(99)	**(100)**	(99)
At December 31	**135**	669	**135**	669

In 2017, the BPI Group reclassified one of its investment properties to bank premises with a carrying amount of P434 million as the Group started to use the property as branch office for its operations. There is no change in the carrying amount of the property transferred. This is a non-cash item for cash flow purposes.

Investment properties have aggregate fair value of P1,281 million as at December 31, 2017 (2016 - P3,090 million). The fair value of investment property is determined on the basis of appraisal made by an internal or an external appraiser duly certified by the Facility Services Group. Valuation method employed by the appraisers mainly includes the market data approach.

Depreciation is included in Occupancy and equipment-related expenses in the statement of income.

All investment properties generate rental income. Rental income from investment properties recognized in the statement of income, as part of Other operating income, amounts to P16 million for the year ended December 31, 2017 (2016 - P243 million; 2015 - P262 million). Direct operating expenses (including repairs and maintenance) arising from these investment properties amount to P12 million for the year ended December 31, 2017 (2016 - P190 million; 2015 - P165 million).

Note 13 - Investments in Subsidiaries and Associates

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

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Carrying value (net of impairment)				
Investments at equity method	**6,386**	6,818	**-**	-
Investments at cost method	**-**	-	**9,043**	8,948
	6,386	6,818	**9,043**	8,948

Investments in associates carried at equity method in the consolidated statement of condition follow:

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest (%)		Acquisition cost		Measurement method
		2017	2016	**2017**	2016	
			(In Millions of Pesos)			
BPI-Philamlife Assurance Corporation	Philippines	**47.67**	47.67	**371**	371	Equity
AF Payments, Inc.	Philippines	**20.00**	20.00	**690**	590	Equity
National Reinsurance Corporation*	Philippines	**13.69**	13.69	**204**	204	Equity
Beacon Property Ventures, Inc.	Philippines	**20.00**	20.00	**72**	80	Equity
CityTrust Realty Corporation	Philippines	**40.00**	40.00	**2**	2	Equity
Global Payments-Asia Pacific Philippines Incorporated	Philippines	**49.00**	49.00	**1,342**	1,342	Equity
				2,681	2,589	

**BPI Group has significant influence due to its representation on the governing body of National Reinsurance Corporation*

For BPI-Philamlife Assurance Corporation, BPI acts as distribution channel for the former's insurance products. In 2014, the distribution agreement with Philamlife has been extended for another twenty years or until November 27, 2039 unless earlier terminated.

Details and movements of investments in associates carried at equity method in the consolidated financial statements follow:

	2017	2016
	(In Millions of Pesos)	
Acquisition cost		
At January 1	**2,589**	2,479
Additions	**100**	130
Return of capital	**(8)**	(20)
At December 31	**2,681**	2,589
Accumulated equity in net income		
At January 1	**2,989**	2,651
Share in net income for the year	**772**	814
Dividends received	**(522)**	(476)
At December 31	**3,239**	2,989
Accumulated share in other comprehensive income		
At January 1	**1,240**	1,323
Share in other comprehensive loss for the year	**(774)**	(83)
At December 31	**466**	1,240
	6,386	6,818

As the associates are not considered to be individually material to impact the financial statements of the BPI Group, the unaudited financial information of associates as at and for the years ended December 31 have been aggregated as follows:

	2017	2016
	(In Millions of Pesos)	
Total assets	**125,471**	109,662
Total liabilities	**107,209**	90,386
Total revenues	**33,538**	23,231
Total net income	**1,486**	1,338

The details of equity investments at cost method in the separate financial statements of the Parent Bank follow:

	Acquisition cost		Allowance for impairment		Carrying value	
	2017	2016	**2017**	2016	**2017**	2016
			(In Millions of Pesos)			
Subsidiaries						
BPI Europe Plc.	**1,910**	1,910	**-**	-	**1,910**	1,910
BPI Direct BanKO, Inc., A Savings Bank (formerly BPI Direct Savings Bank, Inc.)	**1,009**	1,009	**-**	-	**1,009**	1,009
Ayala Plans, Inc.	**863**	863	**-**	-	**863**	863
BPI Capital Corporation	**623**	623	**-**	-	**623**	623
BPI Asset Management and Trust Corporation	**600**	600	**-**	-	**600**	600
BPI Payments Holdings Inc. (formerly BPI Card Finance Corp.)	**443**	340	**-**	-	**443**	340
BPI Century Tokyo Lease and Finance Corporation	**329**	329	**-**	-	**329**	329
FGU Insurance Corporation	**303**	303	**-**	-	**303**	303
BPI Forex Corp.	**195**	195	**-**	-	**195**	195
BPI Express Remittance Corp. USA	**191**	191	**-**	-	**191**	191
BPI Family Savings Bank, Inc.	**150**	150	**-**	-	**150**	150
First Far-East Development Corporation	**91**	91	**-**	-	**91**	91
Green Enterprises S.R.L. in Liquidation	**54**	54	**-**	-	**54**	54
FEB Stock Brokers, Inc.	**25**	25	**-**	-	**25**	25
BPI Computer Systems Corp.	**23**	23	**-**	-	**23**	23
BPI Express Remittance Spain S.A	**26**	26	**-**	-	**26**	26
Others	**321**	321	**(104)**	(104)	**217**	217
Associates	**1,991**	1,999	**-**	-	**1,991**	1,999
	9,147	9,052	**(104)**	(104)	**9,043**	8,948

On March 29, 2017 and August 30, 2016, the Parent Bank made an additional capital infusion to BPI Payments Holdings Inc. (formerly BPI Card Finance Corp.) amounting to P103 million and P290 million, respectively.

Effective September 20, 2016, the Parent Bank has assumed full ownership of BPI Globe BanKO, Inc., from prior 40% ownership, after acquiring the combined 60% stake held by two other shareholders for a consideration of P29 million. Refer to Note 31.3 for details.

On October 6, 2016, BPI Asset Management and Trust Corporation, with an initial paid-in capital of P600 million, was incorporated with the SEC as a wholly-owned subsidiary of the Parent Bank. BPI Asset Management and Trust Corporation has officially commenced operations on February 1, 2017. The primary business purpose of BPI Asset Management and Trust Corporation is to carry and engage in the business of trust, other fiduciary activities and investment management activities.

There is no individual subsidiary with non-controlling interest considered material to the Parent Bank.

Note 14 - Deferred Income Taxes

The significant components of deferred income tax assets and liabilities at December 31 are as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Deferred income tax assets				
Allowance for impairment	**7,286**	6,843	**4,736**	4,173
Pension liability	**738**	796	**683**	597
Bonus accruals	**328**	301	**254**	245
Net operating loss carry over (NOLCO)	**129**	63	**-**	-
Fair value loss on securities	**-**	48	**-**	48
Minimum corporate income tax (MCIT)	**-**	1	**-**	-
Others	**160**	35	**34**	32
Total deferred income tax assets	**8,641**	8,087	**5,707**	5,095
Deferred income tax liabilities				
Revaluation gain on properties	**(507)**	(519)	**(507)**	(519)
Fair value gain on securities	**(17)**	-	**-**	-
Others	**(26)**	(25)	**(20)**	(5)
Total deferred income tax liabilities	**(550)**	(544)	**(527)**	(524)
Deferred income tax assets, net	**8,091**	7,543	**5,180**	4,571

The movements in the deferred income tax account are summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**7,543**	6,433	**4,571**	3,936
Amounts credited to statement of income	**462**	884	**462**	439
Amounts credited to other comprehensive income	**86**	226	**147**	196
At December 31	**8,091**	7,543	**5,180**	4,571

The deferred tax credit charge in the statement of income comprises the following temporary differences:

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
	(In Millions of Pesos)					
Allowance for impairment	**(443)**	(377)	(670)	**(563)**	(57)	(322)
Bonus accruals	**(27)**	(301)	-	**(9)**	(245)	-
Fair value (loss) gain on securities	**-**	(142)	81	**118**	(142)	81
Pension	**174**	(52)	40	**(65)**	36	31
NOLCO	**(66)**	-	-	**-**	-	-
Others	**(100)**	(12)	(49)	**57**	(31)	(28)
	(462)	(884)	(598)	**(462)**	(439)	(238)

The outstanding NOLCO at December 31 consists of:

Year of Incurrence	Year of Expiration	Consolidated 2017	Consolidated 2016	Parent 2017	Parent 2016
		(In Millions of Pesos)			
2017	2020	**69**	-	-	-
2016	2019	**202**	182	-	-
2015	2018	**197**	188	-	-
2014	2017	**361**	361	-	-
2013	2016	**-**	20		
		829	751	-	-
Used portion/ expired during the year		**(361)**	(20)	-	-
NOLCO not recognized		**(37)**	(521)	-	-
		431	210	-	-
Tax rate		**30%**	30%	**30%**	30%
Deferred income tax asset on NOLCO		**129**	63	-	-

The details of MCIT at December 31 are as follows:

Year of Incurrence	Year of Expiration	**Consolidated** 2017	**Consolidated** 2016	**Parent** 2017	**Parent** 2016
		(In Millions of Pesos)			
2014	2017	**-**	1	**-**	-

<u>Note 15 - Other Resources</u>

The account at December 31 consists of the following:

	Consolidated 2017	**Consolidated** 2016	**Parent** 2017	**Parent** 2016
	(In Millions of Pesos)			
Accounts receivable	**2,781**	2,898	**5,233**	1,974
Intangible assets	**2,454**	2,336	**2,413**	2,277
Residual value of equipment for lease	**2,242**	2,090	**-**	-
Prepaid expenses	**1,530**	1,752	**1,166**	1,268
Accrued trust and other fees	**1,158**	1,124	**726**	953
Sundry debits	**945**	574	**939**	565
Rental deposits	**563**	510	**484**	430
Creditable withholding tax	**416**	380	**92**	82
Miscellaneous assets	**4,504**	1,811	**3,673**	1,179
	16,593	13,475	**14,726**	8,728
Allowance for impairment	**(848)**	(1,190)	**(701)**	(990)
	15,745	12,285	**14,025**	7,738

Intangible assets mainly pertain to contractual customer relationships and computer software.

Sundry debits pertain to float items arising from timing differences in recording transactions which are expected to clear in one to two days.

Miscellaneous assets include returned checks, prepaid taxes and other office supplies.

The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**1,190**	1,456	**990**	1,237
Reversal of impairment losses	**(295)**	(39)	**(240)**	(23)
Write-off	**(47)**	(227)	**(49)**	(224)
At December 31	**848**	1,190	**701**	990

The allowance for impairment as at December 31, 2017 and 2016 mainly pertains to accounts receivable.

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Current	**11,524**	8,555	**11,996**	5,980
Non-current	**5,069**	4,920	**2,730**	2,748
	16,593	13,475	**14,726**	8,728

Note 16 - Deposit Liabilities

The account at December 31 consists of:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Demand	**252,238**	231,525	**241,100**	219,869
Savings	**860,612**	820,181	**751,351**	711,270
Time	**449,350**	379,594	**331,512**	253,339
	1,562,200	1,431,300	**1,323,963**	1,184,478

The Parent balances above include amounts due from related parties (Note 27). The Consolidated balances above also include amounts due from related parties (Note 27) except for accounts considered as intercompany transactions.

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Current	**818,811**	806,779	**726,560**	572,877
Non-current	**743,389**	624,521	**597,403**	611,601
	1,562,200	1,431,300	**1,323,963**	1,184,478

On October 18, 2017, the BSP approved the request of the Parent Bank to issue long-term negotiable certificates of deposit (LTNCD) of up to P30 billion. The Parent Bank issued the first tranche amounting to P12.2 billion on November 24, 2017 with a tenor of 5.5 years maturing on May 24, 2023 and an interest rate of 3.75% per annum payable quarterly. The amount of LTNCD is included under time deposits.

Related interest expense on deposit liabilities is broken down as follows:

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
	(In Millions of Pesos)					
Demand	**616**	557	513	**557**	514	463
Savings	**6,723**	6,774	5,886	**5,489**	5,497	4,674
Time	**9,321**	7,970	6,927	**5,367**	3,605	3,246
	16,660	15,301	13,326	**11,413**	9,616	8,383

Under current and existing BSP regulations as at December 31, 2017 and 2016, the BPI Group should comply with a simplified minimum reserve requirement on statutory/legal and liquidity reserves. Further, BSP requires all reserves be kept at the central bank. The BPI Group is in full compliance with the simplified reserve requirement.

The required statutory/legal and liquidity reserves as reported to BSP at December 31 follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Required reserves (included in Due from BSP)	**233,509**	210,335	**215,088**	191,507

Note 17 - Bills Payable

The account at December 31 consists of:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Local banks	**37,064**	9,150	**25,810**	61
Foreign banks	**46,453**	52,823	**44,912**	52,196
	83,517	61,973	**70,722**	52,257

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

	Consolidated		Parent	
	2017	2016	**2017**	2016
Private firms and local banks - Peso-denominated	**3.22 - 4.10**	3.22 - 4.40	**4.26 - 4.66**	4.37 - 4.48
Foreign banks - Foreign currency-denominated	**1.69 - 1.82**	1.08 - 1.30	**1.69 - 1.82**	1.08 - 1.30

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
	(In Millions of Pesos)					
Interest expense	**1,150**	634	332	**885**	406	115

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Current	**63,671**	34,268	**50,877**	25,057
Non-current	**19,846**	27,705	**19,845**	27,200
	83,517	61,973	**70,722**	52,257

Bills payable include funds borrowed from Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and BSP which were relent to customers of the BPI Group in accordance with the financing programs of LBP, DBP and BSP and credit balances of settlement bank accounts. The average payment term of these bills payable is 0.95 years for 2017 and 2016. Loans and advances of the BPI Group arising from these financing programs serve as security for the related bills payable (Note 10).

The movement in bills payable is summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**61,973**	20,941	**52,257**	12,826
Additions	**365,417**	279,812	**331,286**	257,376
Disposals	**(344,043)**	(239,884)	**(313,005)**	(218,953)
Amortization of discount	**71**	13	**71**	13
Exchange differences	**99**	1,091	**113**	995
At December 31	**83,517**	61,973	**70,722**	52,257

Note 18 - Deferred Credits and Other Liabilities

The account at December 31 consists of the following:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Bills purchased - contra	**12,505**	11,319	**12,499**	11,312
Accounts payable	**5,534**	4,875	**3,339**	3,325
Dividends payable	**3,546**	3,543	**3,545**	3,543
Outstanding acceptances	**2,992**	1,452	**2,992**	1,452
Deposits on lease contracts	**2,136**	1,970	**-**	-
Withholding tax payable	**599**	555	**459**	434
Due to the Treasurer of the Philippines	**636**	430	**562**	383
Other deferred credits	**418**	276	**83**	80
Miscellaneous liabilities	**11,613**	7,738	**9,733**	6,307
	39,979	32,158	**33,212**	26,836

Bills purchased - contra represents liabilities arising from the outright purchases of checks before actual clearing as a means of immediate financing offered by the BPI Group.

Miscellaneous liabilities include pension liability, insurance and other employee-related payables.

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Current	**36,192**	29,126	**31,375**	25,675
Non-current	**3,787**	3,032	**1,837**	1,161
	39,979	32,158	**33,212**	26,836

Note 19 - Capital Funds

Details of authorized share capital of the Parent Bank follow:

	2017	2016	2015
	(In Millions of Pesos, Except Par Value Per Share)		
Authorized capital (at P10 par value per share)			
Common shares	**49,000**	49,000	49,000
Preferred A shares	**600**	600	600
	49,600	49,600	49,600

Details of outstanding common shares follow:

	2017	2016	2015
	(In Number of Shares)		
Issued common shares			
At January 1	**3,937,043,603**	3,932,220,179	3,932,214,184
Issuance of shares during the year	**2,369,058**	4,823,424	5,995
At December 31	**3,939,412,661**	3,937,043,603	3,932,220,179
Subscribed common shares	**5,785,721**	6,213,433	3,685,784

Share premium as at December 31, 2017 amounts to P29,771 million (2016 - P29,591 million).

As at December 31, 2017, 2016 and 2015, the Parent Bank has 11,488, 11,596 and 11,754 common shareholders, respectively. There are no preferred shares issued and outstanding at December 31, 2017, 2016 and 2015.

Details of and movements in Accumulated other comprehensive loss for the years ended December 31 follow:

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
	(In Millions of Pesos)					
Fair value reserve on available-for-sale securities						
At January 1	**(3,838)**	(4,381)	(3,855)	**(3,724)**	(4,226)	(4,072)
Unrealized fair value loss before tax	**264**	(507)	(542)	**23**	(133)	(217)
Amount recycled to profit or loss	**447**	1,072	(26)	**424**	623	22
Deferred income tax effect	**2**	(22)	42	**2**	12	41
At December 31	**(3,125)**	(3,838)	(4,381)	**(3,275)**	(3,724)	(4,226)
Share in other comprehensive income (loss) of insurance subsidiaries						
At January 1	**(158)**	(67)	188	**-**	-	-
Share in other comprehensive income (loss) for the year, before tax	**175**	(108)	(265)	**-**	-	-
Deferred income tax effect	**28**	17	10	**-**	-	-
At December 31	**45**	(158)	(67)	**-**	-	-
Share in other comprehensive income of associates						
At January 1	**1,259**	1,333	1,784	**-**	-	-
Share in other comprehensive loss for the year	**(780)**	(74)	(451)	**-**	-	-
At December 31	**479**	1,259	1,333	**-**	-	-
Translation adjustment on foreign operations						
At January 1	**(804)**	(691)	(768)	**-**	-	-
Translation differences	**126**	(113)	77	**-**	-	-
At December 31	**(678)**	(804)	(691)	**-**	-	-
Actuarial losses on defined benefit plan, net						
At January 1	**(1,537)**	(958)	(572)	**(1,083)**	(654)	(429)
Actuarial losses for the year	**(387)**	(827)	(546)	**(358)**	(613)	(322)
Deferred income tax effect	**115**	248	160	**20**	184	97
At December 31	**(1,809)**	(1,537)	(958)	**(1,421)**	(1,083)	(654)
	(5,088)	(5,078)	(4,764)	**(4,696)**	(4,807)	(4,880)

The Board of Directors of the Parent Bank approved to grant the Executive Stock Option Plan (ESOP) and Executive Stock Purchase Plan (ESPP) to qualified beneficiaries/participants of up to the following number of shares:

Date	ESOP shares granted	ESPP shares granted
December 13, 2017	3,560,000	7,500,000
December 14, 2016	3,560,000	4,500,000
December 18, 2015	3,575,000	8,000,000

The ESOP has a three-year vesting period with 1/3 of the option being vested at the end of each year from grant date while the ESPP has a five-year payment period.

The exercise price for ESOP is equal to the volume weighted average of BPI share price for the most recent previous 30-trading days from grant date. The weighted average fair value of options granted determined using the Black-Scholes valuation model was P17.41, P13.83 and P11.64 for the years ended December 31, 2017, 2016 and 2015, respectively.

Movements in the number of employee share options are as follows:

	2017	2016	2015
At January 1	**9,100,000**	9,225,000	6,350,000
Granted	**3,485,000**	-	3,575,000
Exercised	**(746,667)**	(16,667)	(91,667)
Cancelled	**(500,000)**	(108,333)	(608,333)
At December 31	**11,338,333**	9,100,000	9,225,000
Exercisable	**6,745,000**	3,033,333	2,650,000

The subscription price for ESPP is equivalent to 15% below the volume weighted average of BPI share price for the most recent previous 30-trading days from grant date. The subscription dates for ESPP were on February 15, 2017, January 25, 2016 and November 12, 2014.

The impact of ESOP is not considered material to the financial statements; thus, the disclosures were only limited to the information mentioned above.

Details of and movements in Reserves for the years ended December 31 follow:

	Consolidated			**Parent**		
	2017	2016	2015	**2017**	2016	2015
	(In Millions of Pesos)					
Surplus reserves						
At January 1	**2,711**	2,563	2,098	**2,695**	2,555	2,095
Transfer from surplus to reserves	**90**	-	-	**-**	-	-
Transfer from reserves to surplus	**(2,578)**	103	432	**(2,578)**	103	432
Executive stock plan amortization	**31**	45	33	**25**	37	28
At December 31	**254**	2,711	2,563	**142**	2,695	2,555

Surplus reserves consist of:

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
	(In Millions of Pesos)					
Reserve for trust business	**90**	2,577	2,474	**-**	2,577	2,474
Reserve for self-insurance	**34**	34	34	**34**	34	34
Executive stock option plan amortization	**130**	100	55	**108**	84	47
	254	2,711	2,563	**142**	2,695	2,555

In compliance with existing BSP regulations, 10% of the Parent Bank's income from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve for trust business reaches 20% of the Parent Bank's regulatory net worth. Starting 2017, the surplus reserve is being carried by BPI Asset Management and Trust Corporation as a result of the spin-off.

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

Cash dividends declared by the Board of Directors of the Parent Bank during the years 2015 to 2017 follow:

		Amount of dividends	
Date declared	Date approved by the BSP	Per share	Total (In Millions of Pesos)
May 20, 2015	July 20, 2015	0.90	3,539
December 16, 2015	Not applicable, see below.	0.90	3,539
June 15, 2016	Not applicable, see below.	0.90	3,543
December 14, 2016	Not applicable, see below.	0.90	3,543
June 15, 2017	Not applicable, see below.	0.90	3,545
December 15, 2017	Not applicable, see below.	0.90	3,546

Prior to October 2015, cash dividends declared are payable to common shareholders of record as of 15th working day from receipt by the Parent Bank of the approval by the BSP and distributable on the 15th working day from the said record date.

In October 2015, BSP Circular No. 888, Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments, was issued which amends the section on recording of dividends. The liability for dividends declared shall be taken up in the bank's books upon its declaration. Prior to the release of BSP Circular No. 888, the liability for recording dividends declared is taken up in the books upon receipt of BSP approval thereof or if no such approval is received, after thirty (30) banking/business days from the date the required report on dividend declaration was received by the appropriate department of the Supervision and Examination Sector of the BSP, whichever comes earlier.

The calculation of earnings per share (EPS) is shown below:

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
	(In Millions, Except Earnings Per Share Amounts)					
a) Net income attributable to equity holders of the Parent Bank	**22,416**	22,050	18,234	**22,097**	20,885	12,063
b) Weighted average number of common shares outstanding during the year	**3,939**	3,937	3,932	**3,939**	3,937	3,932
c) Basic EPS (a/b)	**5.69**	5.60	4.64	**5.61**	5.30	3.07

The basic and diluted EPS are the same for the years presented as the stock options outstanding is not significant to impact the weighted average number of common shares.

Note 20 - Other Operating Income

Details of other operating income follow:

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
	(In Millions of Pesos)					
Trust and asset management fees	**3,706**	3,605	3,607	**204**	2,369	2,912
Credit card income	**3,175**	1,530	1,537	**3,112**	1,519	1,529
Rental income	**1,691**	1,687	1,729	**236**	353	382
Gain on sale of assets	**1,252**	712	2,530	**330**	322	1,950
Dividend income	**68**	56	48	**9,492**	6,083	389
Others	**1,477**	1,365	1,199	**1,153**	1,084	889
	11,369	8,955	10,650	**14,527**	11,730	8,051

Trust and asset management fees arise from the BPI Group's asset management and trust services and are based on agreed terms with various managed funds and investments.

Credit card income pertains to membership fees arising from issuance of credit cards and various service charges earned from the cardholders.

Rental income is earned by the BPI Group by leasing out its investment properties (Note 12) and other assets which consist mainly of fleet of vehicles under operating lease arrangements. The lease agreements are cancellable lease periods ranging from two to five years.

Gain on sale of assets arises mainly from the sale of assets pertaining to merchant acquiring business, disposals of properties (including equity investments), foreclosed collaterals and non-performing assets.

Dividend income recognized by the Parent Bank substantially pertains to dividend distribution of subsidiaries. In 2017, BPI Family Savings Bank, Inc., BPI Capital Corporation and BPI Investment Management, Inc. declared dividends payable to the Parent Bank amounting to P4,500 million, P2,500 million and P1,900 million, respectively.

Other income includes recoveries on charged-off assets and revenues from service arrangements with customers and related parties.

Note 21 - Leases

The BPI Group and the Parent Bank (as lessee) have various lease agreements which mainly pertain to branch premises that are renewable under certain terms and conditions. The rentals (included in Occupancy and equipment-related expenses) under these lease contracts are as follows:

	Consolidated	Parent
	(In Millions of Pesos)	
2017	**1,495**	**1,211**
2016	1,337	1,097
2015	1,259	1,041

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

	2017	2016
	(In Millions of Pesos)	
No later than 1 year	**90**	65
Later than 1 year but no later than 5 years	**186**	101
More than 5 years	**69**	10
	345	176

Note 22 - Operating Expenses

Details of compensation and fringe benefits expenses follow:

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
			(In Millions of Pesos)			
Salaries and wages	**11,642**	11,332	10,158	**8,891**	8,998	8,062
Retirement expense (Note 25)	**720**	755	1,039	**574**	602	854
Other employee benefit expenses	**1,535**	1,376	1,266	**1,226**	1,113	1,033
	13,897	13,463	12,463	**10,691**	10,713	9,949

Details of other operating expenses follow:

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
			(In Millions of Pesos)			
Insurance	**3,940**	3,426	2,837	**2,448**	2,160	1,921
Advertising	**1,215**	1,144	1,303	**1,002**	955	1,152
Travel and communication	**902**	812	770	**748**	687	650
Taxes and licenses	**714**	620	585	**491**	369	375
Litigation expenses	**598**	512	397	**348**	279	211
Supervision and examination fees	**542**	606	541	**401**	526	474
Management and other professional fees	**501**	495	442	**419**	424	343
Office supplies	**328**	324	301	**267**	271	253
Amortization expense	**296**	312	323	**289**	308	320
Shared expenses	**-**	-	-	**16**	12	15
Others	**4,256**	3,071	2,714	**3,197**	2,157	1,815
	13,292	11,322	10,213	**9,626**	8,148	7,529

Other expenses mainly include fees and incentives paid to agents, outsourcing fees, freight charges and other business expense such as those incurred in staff meetings, donations, periodicals and magazines.

Note 23 - Income Taxes

A reconciliation between the provision for income tax at the statutory tax rate and the effective income tax for the years ended December 31 follows:

	Consolidated					
	2017		2016		2015	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
			(In Millions of Pesos)			
Statutory income tax	**8,608**	**30.00**	8,043	30.00	7,054	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(696)**	**(2.42)**	(764)	(2.85)	(886)	(3.77)
Tax-exempt income	**(4,350)**	**(15.16)**	(3,942)	(14.70)	(1,515)	(6.44)
Others, net	**2,394**	**8.34**	1,198	4.47	485	2.06
Effective income tax	**5,956**	**20.76**	4,535	16.92	5,138	21.85

	Parent					
	2017		2016		2015	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
			(In Millions of Pesos)			
Statutory income tax	**7,765**	**30.00**	7,267	30.00	4,828	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(606)**	**(2.34)**	(669)	(2.76)	(792)	(4.92)
Tax-exempt income	**(2,907)**	**(11.23)**	(2,577)	(10.64)	(340)	(2.11)
Others, net	**(466)**	**(1.80)**	(683)	(2.82)	335	2.08
Effective income tax	**3,786**	**14.63**	3,338	13.78	4,031	25.05

Note 24 - Basic Quantitative Indicators of Financial Performance

The key financial performance indicators follow (in %):

	Consolidated		Parent	
	2017	2016	**2017**	2016
Return on average equity	**12.75**	13.77	**16.81**	17.72
Return on average assets	**1.27**	1.39	**1.54**	1.67
Net interest margin	**2.91**	2.85	**2.65**	2.58

Note 25 - Retirement Plans

BPI and its subsidiaries, and a non-life insurance subsidiary have separate trusteed, non-contributory retirement benefit plans covering all qualified officers and employees. Effective January 1, 2016, the BPI Group implemented a defined contribution plan, in addition to its existing defined benefit plan, which is accounted for as a defined benefit plan with minimum guarantee. The description of the plans follows:

Defined benefit retirement plan

BPI

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

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

Non-life insurance subsidiary

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

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

Defined contribution retirement plan

For the defined contribution retirement plan, the defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of Republic Act ("RA") No. 7641. All non-unionized employees hired on or after the effective date are automatically under the new defined contribution plan. Employees hired prior to the effective date shall have the option to elect to become members of the new defined contribution plan.

Plan assets for both the defined benefit and defined contribution plans are held in trusts, governed by local regulations and practice in the Philippines.

Following are the amounts recognized based on recent actuarial valuations:

Defined benefit retirement plan

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

	Consolidated	
	2017	2016
	(In Millions of Pesos)	
Present value of defined benefit obligation	**12,718**	11,952
Fair value of plan assets	**(10,710)**	(10,084)
Pension liability recognized in the statement of condition	**2,008**	1,868

	Parent	
	2017	2016
	(In Millions of Pesos)	
Present value of defined benefit obligation	**10,508**	9,905
Fair value of plan assets	**(9,003)**	(8,543)
Pension liability recognized in the statement of condition	**1,505**	1,362

Pension liability is shown as part of "Miscellaneous liabilities" within Deferred credits and other liabilities (Note 18).

The movement in plan assets is summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**10,084**	10,953	**8,543**	9,106
Transfer to defined contribution plan	**-**	(659)	**(130)**	(535)
Interest income	**525**	521	**445**	440
Contributions	**685**	704	**542**	577
Benefit payments	**(1,051)**	(1,026)	**(840)**	(699)
Remeasurement - return on plan assets	**467**	(409)	**443**	(346)
At December 31	**10,710**	10,084	**9,003**	8,543

The carrying values of the plan assets as at December 31, 2017 and 2016 represents the fair value.

The plan assets are comprised of the following:

	Consolidated				Parent			
	2017		2016		**2017**		2016	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	**%**
	(In Millions of Pesos Except for Rates)							
Debt securities	**3,786**	**35**	4,416	44	**3,183**	**35**	3,741	44
Equity securities	**4,763**	**45**	4,461	44	**4,003**	**45**	3,779	44
Others	**2,161**	**20**	1,207	12	**1,817**	**20**	1,023	12
	10,710	**100**	10,084	100	**9,003**	**100**	8,543	100

Pension plan assets of the unified retirement plan include investment in BPI's common shares with carrying amount of P222 million (2016 - P160 million) and fair value of P510 million at December 31, 2017 (2016 - P373 million). Realized and unrealized gains coming from BPI's common shares amount to P10 million and P288 million in 2017, respectively (2016 - P5 million and P213 million). The actual return on plan assets of the BPI Group was P992 million in 2017 (2016 - P112 million). An officer of the Parent Bank exercises the voting rights over the plan's investment in BPI's common shares.

The movement in the present value of defined benefit obligation is summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**11,952**	11,991	**9,905**	9,849
Transfers to defined contribution plan	**-**	(659)	**(130)**	(535)
Current service cost	**619**	649	**507**	535
Interest cost	**607**	597	**501**	493
Past service cost - plan amendment	**(5)**	(197)	**(5)**	(162)
Benefit payments	**(1,051)**	(1,026)	**(840)**	(699)
Settlement loss	**9**	163	**9**	123
Remeasurement - change in assumptions and experience adjustment	**587**	434	**561**	301
At December 31	**12,718**	11,952	**10,508**	9,905

The BPI Group has no other transactions with the plan other than the contributions presented above for the years ended December 31, 2017 and 2016.

(b) Expense recognized in the statement of income

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
	(In Millions of Pesos)					
Current service cost	**619**	649	1,016	**507**	535	837
Net interest cost	**82**	76	23	**56**	53	17
Settlement loss	**9**	163	-	**9**	123	-
Past service cost	**(5)**	(197)	-	**(5)**	(162)	-
	705	691	1,039	**567**	549	854

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

	Consolidated		Parent	
	2017	2016	**2017**	2016
Discount rate	**5.87%**	5.35%	**5.84%**	5.32%
Future salary increases	**5.00%**	5.00%	**5.00%**	5.00%

Assumptions regarding future mortality and disability experience are based on published statistics generally used for local actuarial valuation purposes.

The defined benefit plan typically exposes the BPI Group to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risk. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. A decrease in government bond yields will increase the defined benefit obligation although this will also be partially offset by an increase in the value of the plan's fixed income holdings. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the BPI Group. However, the BPI Group believes that due to the long-term nature of the pension liability and the strength of the BPI Group itself, the mix of debt and equity securities holdings of the plan is an appropriate element of the BPI Group's long term strategy to manage the plan efficiently.

The BPI Group ensures that the investment positions are managed within an asset-liability matching framework that has been developed to achieve long-term investments that are in line with the obligations under the plan. The BPI Group's main objective is to match assets to the defined benefit obligation by investing primarily in long-term debt securities with maturities that match the benefit payments as they fall due. The asset-liability matching is being monitored on a regular basis and potential change in investment mix is being discussed with the trustor, as necessary to better ensure the appropriate asset-liability matching.

The BPI Group contributes to the plan depending on the suggested funding contribution as calculated by an independent actuary. The expected contributions for the year ending December 31, 2018 for the BPI Group and the Parent Bank amount to P659 million and P539 million, respectively. The weighted average duration of the defined benefit obligation under the BPI unified retirement plan as at December 31, 2017 is 8 years (2016 - 12 years).

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

Consolidated

(In Millions of Pesos)	**2017**	2016
Up to one year	**383**	1,025
More than 1 year to 5 years	**4,905**	3,446
More than 5 years to 10 years	**6,398**	5,533
More than 10 years to 15 years	**8,844**	10,785
More than 15 years to 20 years	**7,507**	11,886
Over 20 years	**16,150**	53,585

Parent

(In Millions of Pesos)	**2017**	2016
Up to one year	**317**	721
More than 1 year to 5 years	**3,863**	2,668
More than 5 years to 10 years	**5,531**	4,913
More than 10 years to 15 years	**7,333**	9,085
More than 15 years to 20 years	**6,189**	10,184
Over 20 years	**12,326**	40,951

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

Consolidated

2017

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5%	Decrease by 3.90%	Increase by 4.18%
Salary growth rate	1.0%	Increase by 7.66%	Decrease by 6.81%

2016

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 1.00%	Increase by 1.05%
Salary growth rate	1.0%	Increase by 1.77%	Decrease by 1.63%

Parent

2017

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5%	Decrease by 3.92%	Increase by 4.21%
Salary growth rate	1.0%	Increase by 7.71%	Decrease by 6.86%

2016

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 0.99%	Increase by 1.04%
Salary growth rate	1.0%	Increase by 1.74%	Decrease by 1.61%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement liability recognized within the statement of condition.

Defined contribution retirement plan subject to the requirements of RA No. 7641 at December 31

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Fair value of plan assets	**916**	660	**707**	536
Present value of defined benefit obligation	**(239)**	(235)	**(172)**	(192)
	677	425	**535**	344
Effect of asset ceiling	**677**	425	**535**	344
	-	-	**-**	-

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

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**235**	-	**192**	-
Interest cost	**12**	-	**10**	-
Current service cost	**43**	64	**29**	53
Benefit payments	**3**	-	**-**	-
Transfer to the Plan	**-**	659	**(36)**	535
Remeasurement - change in assumptions and experience adjustment	**(54)**	(488)	**(23)**	(396)
At December 31	**239**	235	**172**	192

The movements in the fair value of plan assets follow:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**660**	-	**536**	-
Contribution paid by employer	**152**	24	**116**	20
Interest income	**40**	-	**32**	-
Transfer to the plan	**-**	659	**(36)**	535
Remeasurement - return on plan assets	**64**	(23)	**59**	(19)
At December 31	**916**	660	**707**	536

Total retirement expense for the year ended December 31, 2017 under the defined contribution plan for the BPI Group and Parent Bank is P39 million and P26 million (2016 - P64 million and P53 million).

The major categories of plan assets as a percentage of the fair value of total plan assets as at December 31, 2017 follow:

	Consolidated				Parent			
	2017		2016		**2017**		2016	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	**%**
	(In Millions of Pesos Except for Rates)							
Equity securities	**707**	**77**	502	76	**545**	**77**	408	76
Debt securities	**155**	**17**	75	11	**120**	**17**	61	11
Others	**54**	**6**	83	13	**42**	**6**	67	13
	916	**100**	660	100	**707**	**100**	536	100

The asset allocation of the Plan is set and reviewed from time to time by the Plan trustees taking into account the membership profile, the liquidity requirements of the Plan and risk appetite of the Plan sponsor.

Contributions are determined based on the plan provisions. The expected contribution to the defined contribution plan for the year ending December 31, 2018 for the BPI Group and the Parent Bank amounts to P153 million and P91 million, respectively (2017 - P113 million and P90 million).

The weighted average duration of the defined contribution retirement plan for the BPI Group and Parent Bank is 20 years (2016 - 25 years).

Note 26 - Trust Assets

At December 31, 2017, the net asset value of trust and fund assets administered by the BPI Group amounts to P591 billion (2016 - P564 billion).

Government securities deposited by the BPI Group with the BSP in compliance with the requirements of the General Banking Act relative to the trust functions follow:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Government securities (included in Held-to-maturity securities)	**306**	5,881	-	5,881

As a result of the spin-off and following the commencement of its operations in 2017, the security deposit with the BSP is now being carried by BPI Asset Management and Trust Corporation equivalent to 0.05% of the total book value of the assets under management.

Note 27 - Related Party Transactions

In the normal course of business, the Parent Bank transacts with related parties consisting of its subsidiaries and associates. Likewise, the BPI Group has transactions with Ayala Corporation (AC) and its subsidiaries (Ayala Group), where all transactions are dealt with on an arm's length basis. AC is a substantial stockholder of BPI as at reporting date.

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

The Parent Bank has a Board-level Related Party Transaction Committee that vets and endorses all significant related party transactions, including those involving directors, officers, stockholders and their related interests (DOSRI), for which the latter shall require final Board approval. The Committee consists of three directors, majority of whom are independent directors including the Chairman, and two non-voting members from management, namely, the Chief Audit Executive and the Chief Compliance Officer.

Significant related party transactions, which represent movements in the account balance, and outstanding balances as at and for the years ended December 31 are summarized below (transactions with subsidiaries have been eliminated in the consolidated financial statements):

Consolidated

	2017		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	**59**	**134**	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.37% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 4 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	**152**	**197**	
AC	**(1,842)**	**4,123**	
Subsidiaries of AC	**1,233**	**23,430**	
Key management personnel	**-**	**-**	
Other related parties	**(592)**	**302**	
	(990)	**28,186**	
Deposits from:			
Subsidiaries	**1,111**	**8,349**	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.23% to 0.25% Savings - 0.70% to 0.79% Time - 2.15% to 2.22%
Associates	**(469)**	**379**	
Ayala Group	**(7,665)**	**4,541**	
Key management personnel	**(959)**	**381**	
	(7,982)	**13,650**	

	2016		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	3	75	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.63% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	45	45	
AC	(8,143)	5,965	
Subsidiaries of AC	7,109	22,197	
Key management personnel	-	-	
Other related parties	(552)	894	
	(1,538)	29,176	
Deposits from:			
Subsidiaries	146	7,238	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.23% to 0.27% Savings - 0.81% Time - 2.13% to 2.26%
Associates	135	848	
Ayala Group	845	12,206	
Key management personnel	(545)	1,340	
	581	21,632	

	2015		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	41	72	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.05% to 7.60% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 11 years. Additional information on DOSRI loans are discussed below.
Associates	-	-	
AC	(142)	14,108	
Subsidiaries of AC	507	15,088	
Key management personnel	-	-	
Other related parties	583	1,446	
	989	30,714	
Deposits from:			
Subsidiaries	1,066	7,092	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.23% to 0.27% Savings - 0.81% to 0.82% Time - 2.00% to 2.11%
Associates	(276)	713	
Ayala Group	(20,030)	11,361	
Key management personnel	(836)	1,885	
	(20,076)	21,051	

Parent

	2017		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	**59**	**134**	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.37% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 4 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	**152**	**197**	
AC	**(1,842)**	**4,123**	
Subsidiaries of AC	**1,233**	**23,430**	
Key management personnel	**-**	**-**	
Other related parties	**(592)**	**302**	
	(990)	**28,186**	
Deposits from:			
Subsidiaries	**1,098**	**8,243**	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.21% to 0.24% Savings - 0.66% to 0.75% Time - 1.68% to 1.80%
Associates	**(482)**	**359**	
Ayala Group	**(7,452)**	**4,528**	
Key management personnel	**(772)**	**360**	
	(7,608)	**13,490**	

	2016		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	3	75	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.63% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	45	45	
AC	(8,143)	5,965	
Subsidiaries of AC	7,109	22,197	
Key management personnel	-	-	
Other related parties	(552)	894	
	(1,538)	29,176	
Deposits from:			
Subsidiaries	141	7,145	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.22% to 0.25% Savings - 0.76% to 0.77% Time - 1.43% to 1.48%
Associates	130	841	
Ayala Group	1,231	11,980	
Key management personnel	(641)	1,132	
	861	21,098	

	2015		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	41	72	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.05% to 7.60% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 11 years. Additional information on DOSRI loans are discussed below.
Associates	-	-	
AC	(142)	14,108	
Subsidiaries of AC	507	15,088	
Key management personnel	-	-	
Other related parties	583	1,446	
	989	30,714	
Deposits from:			
Subsidiaries	1,059	7,004	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.21% to 0.26% Savings - 0.75% to 0.76% Time - 1.35% to 1.48%
Associates	(264)	711	
Ayala Group	(19,696)	10,749	
Key management personnel	(695)	1,773	
	(19,596)	20,237	

The aggregate amounts included in the determination of income before income tax (prior to elimination) that resulted from transactions with each class of related parties are as follows:

Consolidated

	2017	2016	2015
		(In Millions of Pesos)	
Interest income			
Subsidiaries	**39**	43	4
AC	**151**	169	474
Subsidiaries of AC	**815**	621	493
Other related parties	**15**	31	34
	1,020	864	1,005
Other income			
Subsidiaries	**1,485**	946	923
Associates	**977**	885	900
AC	**11**	17	-
Subsidiaries of AC	**236**	49	12
	2,709	1,897	1,835
Interest expense			
Subsidiaries	**38**	41	12
Associates	**1**	8	2
Ayala Group	**21**	74	38
Key management personnel	**1**	15	17
	61	138	69
Other expenses			
Subsidiaries	**1,371**	836	813
Associates	**34**	36	-
AC	**110**	58	81
Subsidiaries of AC	**209**	211	74
	1,724	1,141	968
Retirement benefits			
Key management personnel	**44**	44	42
Salaries, allowances and other short-term benefits			
Key management personnel	**744**	749	602
Directors' remuneration	**87**	77	74

Parent

	2017	2016	2015
		(In Millions of Pesos)	
Interest income			
Subsidiaries	**3**	2	1
AC	**151**	169	474
Subsidiaries of AC	**815**	621	493
Other related parties	**15**	31	34
	984	823	1,002
Other income			
Subsidiaries	**1,433**	893	820
Associates	**977**	777	773
Subsidiaries of AC	**155**	-	1
	2,565	1,670	1,594
Interest expense			
Subsidiaries	**34**	39	12
Associates	**1**	8	2
Ayala Group	**20**	65	33
Key management personnel	**1**	14	12
	56	126	59
Other expenses			
Subsidiaries	**27**	21	80
AC	**110**	50	63
Subsidiaries of AC	**209**	209	74
	346	280	217
Retirement benefits			
Key management personnel	**37**	37	32
Salaries, allowances and other short-term benefits			
Key management personnel	**629**	604	504
Directors' remuneration	**73**	67	64

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

Other expenses mainly consist of rental expenses and management fees.

Based on the objective assessment done on related party balances, provisions have been recognized against receivables from related parties, as deemed applicable.

Details of DOSRI loans are as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Outstanding DOSRI loans	**4,376**	6,236	**4,335**	6,187

	In percentages (%)			
	Consolidated		Parent	
	2017	2016	**2017**	2016
% to total outstanding loans and advances	**0.36**	0.59	**0.44**	0.74
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	**29.63**	29.60	**29.85**	29.80
Past due DOSRI loans	**0.03**	0.04	**0.03**	0.04
Non-performing DOSRI loans	**0.02**	0.02	**0.02**	0.02

At December 31, 2017 and 2016, the BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans.

Note 28 - Critical Accounting Estimates and Judgments

The BPI Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. It is reasonably possible that the outcomes within the next financial year could differ from assumptions made at reporting date and could result in the adjustment to the carrying amount of affected assets or liabilities.

A. Critical accounting estimates

(i) Impairment losses on loans and advances (Note 10)

The BPI Group reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in profit or loss, the BPI Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows of individually impaired accounts and the estimated impairment for collectively assessed accounts differs by +/- 5%, impairment provision for the year ended December 31, 2017 would be an estimated P466 million (2016 - P469 million) higher or lower.

(ii) Fair value of derivatives and other financial instruments (Notes 6, 29.4 and 29.5)

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

All models are approved by the Board of Directors before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Changes in assumptions about these factors could affect reported fair value of financial instruments. The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of financial instruments that are not quoted in active markets.

(iii) *Pension liability on defined benefit plan (Note 25)*

The BPI Group estimates its pension benefit obligation and expense for defined benefit pension plans based on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 25 and include, among others, the discount rate and future salary increases. The BPI Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. The present value of the defined benefit obligations of the BPI Group at December 31, 2017 and 2016 are determined using the market yields on Philippine government bonds with terms consistent with the expected payments of employee benefits. Plan assets are invested in either equity securities, debt securities or other forms of investments. Equity markets may experience volatility, which could affect the value of pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. Actual results that differ from the BPI Group's assumptions are reflected as remeasurements in other comprehensive income. The BPI Group's assumptions are based on actual historical experience and external data regarding compensation and discount rate trends. The sensitivity analysis on key assumptions is disclosed in Note 25.

(iv) Valuation of assets held for sale

In determining the fair value of assets held for sale, the BPI Group analyzed the sales prices by applying appropriate units of comparison, adjusted by differences between the subject asset or property and related market data. Should there be a subsequent write-down of the asset to fair value less cost to sell, such write-down is recognized as impairment loss in the statement of income.

In 2017, the BPI Group has recognized reversal of impairment loss on its foreclosed assets amounting to P224 million as a result of improvement in fair market values of properties (2016 - reversal of impairment loss of P289 million).

The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of assets held for sale.

B. Critical accounting judgments

(i) Impairment of available-for-sale securities (Note 8)

The BPI Group follows the guidance of Philippine Accounting Standards (PAS) 39 to determine when an available-for-sale security is impaired. This determination requires significant judgment. In making this judgment, the BPI Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health and near-term business outlook of the issuer, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

(ii) Classification of held-to-maturity securities (Note 9)

The BPI Group follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the BPI Group evaluates its intention and ability to hold such investments to maturity. If the BPI Group fails to keep these investments to maturity other than for the specific circumstances - for example selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not at amortized cost.

(iii) Classification of assets held for sale

Management follows the principles in PFRS 5 in classifying certain foreclosed assets (consisting of real estate and auto or chattel) as assets held for sale when the carrying amount of the assets will be recovered principally through sale. Management is committed to a plan to sell these foreclosed assets and the assets are actively marketed for sale at a price that is reasonable in relation to their current fair value.

(iv) Realization of deferred income tax assets (Note 14)

Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax losses will be applied. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

Note 29 - Financial Risk and Capital Management

Risk management in the BPI Group covers all perceived areas of risk exposure, even as it continuously endeavors to identify and manage new and emerging risks. Capital management is understood to be a facet of risk management.

The primary objective of the BPI Group is the generation of recurring acceptable returns to shareholders' capital. To this end, the BPI Group's policies, business strategies and activities are directed towards the generation of cash flows that are in excess of its fiduciary and contractual obligations to its depositors, and to its various funders and stakeholders.

To generate acceptable returns to its shareholders' capital, the BPI Group understands that it has to bear risk, and that risk-taking is inherent in its business. Risk is understood by the BPI Group as the uncertainty in its future income - an uncertainty that emanates from the possibility of incurring losses that are due to unplanned and unexpected drops in revenues, increases in expenses, impairment of asset values, or increases in liabilities.

The possibility of incurring losses is, however, compensated by the possibility of earning more than expected income. Risk-taking is, therefore, not entirely negative to be avoided. Risk-taking actions present opportunities if risks are fully identified and accounted, deliberately taken, and are kept within prudent and rationalized limits.

Enterprise Risk Management Framework

BPI espouses a comprehensive risk management and capital management framework, which integrates the management of all its financial and non-financial risk exposures. The framework conforms not only to BPI's own rigorous standards, but also to BSP's directives in promoting an effective Internal Capital Adequacy Assessment Process (ICAAP) and other risk management processes. The framework also ensures that BPI has adequate liquidity and capital to mitigate risks. The framework focuses on three key components consisting of:

- Sound risk management governance;
- Effective processes, information systems, and controls; and
- Timely and reliable risk data.

The Board of Directors carries out its risk management function through the Risk Management Committee (RMC) of the Board. The RMC is tasked with nurturing a culture of risk management across the enterprise. The RMC sets the risk appetite; proposes and approves risk management policies, frameworks, and guidelines; and regularly reviews risk management structures, metrics, limits, and issues across the BPI Group, in order to meet and comply with regulatory and international standards on risk measurement and management.

At the management level, the Risk Management Office (RMO) is headed by the Chief Risk Officer (CRO). The CRO is ultimately responsible in leading the formulation of risk management policies and methodologies in alignment with the overall business strategy of BPI, ensuring that risks are prudently and rationally undertaken and within its risk appetite, as well as commensurate and disciplined to maximize returns on shareholders' capital. Risk management is carried out by a dedicated team of skilled risk managers and senior officers who have extensive prior operational experience. BPI's risk managers regularly monitor key risk indicators and report exposures against carefully established financial and business risk metrics and limits approved by the RMC. Finally, independent reviews are regularly conducted by the Internal Audit group, regulatory examiners, and external auditors to ensure that risk controls and mitigants are in place and functioning effectively as intended.

The most important risks that the BPI Group manages are credit risk, liquidity risk, market risk and operational and information technology (IT) risks.

29.1 Credit risk

The BPI Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the BPI Group by failing to discharge an obligation. Significant changes in the economy, or in the prospects of a particular industry segment that may represent a concentration in the BPI Group's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, debt securities and other bills. There is also credit risk in off-balance sheet financial arrangements. The Credit Policy and Risk Management Division supports the Credit Committee in managing credit risk, and reports are regularly provided to the Board of Directors.

29.1.1 Credit risk management

(a) Loans and advances

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

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

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

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

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

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

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

(b) Debt securities and other bills

For debt securities and other bills, external ratings such as Standard & Poor's, Moody's and Fitch's ratings or their equivalents are used by the BPI Group for managing credit risk exposures. Investments in these securities and bills are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements.

29.1.2 Risk limit control and mitigation policies

The BPI Group manages, limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and groups, to industries and sovereigns.

The BPI Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when considered necessary. Limits on large exposures and credit concentration are approved by the Board of Directors through the Risk Management Committee.

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored regularly.

Exposure to credit risk is also managed through regular analysis of the ability of existing and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Settlement risk arises in any situation where a payment in cash, securities, foreign exchange currencies, or equities is made in the expectation of a corresponding receipt in cash, securities, foreign exchange currencies, or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the BPI Group's market transactions on any single day. The introduction of the delivery versus payment facility in the local market has brought down settlement risk significantly.

The BPI Group employs a range of policies and practices to mitigate credit risk. Some of these specific control and mitigation measures are outlined below.

(a) Collateral

One of the most traditional and common practice in mitigating credit risk is requiring security particularly for loans and advances. The BPI Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over real estate properties and chattels; and
- Hold-out on financial instruments such as debt securities, deposits, and equities

In order to minimize credit loss, the BPI Group seeks additional collateral from the counterparty when impairment indicators are observed for the relevant individual loans and advances.

(b) Derivatives

The BPI Group maintains strict market limits on net open derivative positions (i.e., the difference between purchase and sale contracts). Credit risk is limited to the net current fair value of instruments, which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments (except where the BPI Group requires margin deposits from counterparties).

(c) Master netting arrangements

The BPI Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts (asset position) is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The BPI Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(d) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the BPI Group on behalf of a customer authorizing a third party to draw drafts on the BPI Group up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, or letters of credit. With respect to credit risk on commitments to extend credit, the BPI Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The BPI Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

29.1.3 Impairment and provisioning policies

As described in Note 29.1.1, the BPI Group's credit-quality mapping on loans and advances is based on the standard BSP loan classifications. Impairment provisions are recognized for financial reporting purposes based on objective evidence of impairment (Note 31.9).

The table below shows the percentage of the BPI Group's loans and advances and the related allowance for impairment.

	Consolidated			
	2017		2016	
	Loans and advances (%)	**Allowance for impairment (%)**	Loans and advances (%)	Allowance for impairment (%)
Unclassified	**98.53**	**0.92**	98.31	0.90
Loans especially mentioned	**0.23**	**5.13**	0.24	5.01
Substandard	**0.42**	**23.70**	0.52	24.86
Doubtful	**0.50**	**69.17**	0.58	66.78
Loss	**0.32**	**100.00**	0.35	100.00
	100.00		100.00	

	Parent			
	2017		2016	
	Loans and advances (%)	**Allowance for impairment (%)**	Loans and advances (%)	Allowance for impairment (%)
Unclassified	**99.08**	**0.85**	98.92	0.80
Loans especially mentioned	**0.18**	**5.55**	0.18	5.31
Substandard	**0.25**	**28.91**	0.37	31.07
Doubtful	**0.17**	**82.63**	0.17	79.50
Loss	**0.32**	**100.00**	0.36	100.00
	100.00		100.00	

29.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to significant on-balance sheet financial assets are as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Due from BSP	**255,948**	239,514	**227,122**	203,743
Due from other banks	**14,406**	23,037	**10,894**	20,558
Interbank loans receivable and SPAR	**18,586**	15,236	**10,504**	9,049
Financial assets at fair value through profit or loss				
Derivative financial assets	**4,975**	2,993	**4,975**	2,993
Trading securities - debt securities	**5,002**	14,479	**3,806**	10,314
Available-for-sale - debt securities	**19,218**	21,962	**9,669**	19,287
Held-to-maturity securities	**277,472**	268,483	**255,382**	245,921
Loans and advances, net	**1,202,338**	1,040,720	**986,869**	821,545
Other financial assets				
Accounts receivable, net	**2,030**	1,625	**4,618**	892
Other accrued interest and fees receivable	**634**	637	**598**	584
Sales contracts receivable, net	**279**	460	**279**	460
Rental deposits	**563**	510	**484**	430
Others, net	**1,170**	1,023	**1,172**	1,030
	1,802,621	1,630,679	**1,516,372**	1,336,806

Credit risk exposures relating to off-balance sheet items are as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Undrawn loan commitments	**160,030**	94,915	**157,338**	90,933
Bills for collection	**33,154**	20,848	**33,154**	20,848
Unused letters of credit	**17,971**	12,951	**17,971**	12,951
Others	**1,189**	734	**1,189**	734
	212,344	129,448	**209,652**	125,466

The preceding table represents the maximum credit risk exposure at December 31, 2017 and 2016, without taking into account any collateral held or other credit enhancements. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of condition.

Management is confident in its ability to continue to control and sustain minimal exposure to credit risk of the BPI Group resulting from its loan and advances portfolio based on the following:

- 98% of the loans and advances portfolio is considered to be neither past due nor impaired (2016 - 98%);
- Mortgage loans are backed by collateral; and
- The BPI Group continues to implement stringent selection process of granting loans and advances.

29.1.5 Credit quality of loans and advances

Loans and advances are summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Neither past due nor impaired	**1,200,778**	1,036,136	**989,383**	820,722
Past due but not impaired	**4,241**	5,301	**2,119**	3,524
Impaired	**17,982**	17,959	**9,280**	9,027
	1,223,001	1,059,396	**1,000,782**	833,273
Allowance for impairment	**(20,663)**	(18,676)	**(13,913)**	(11,728)
	1,202,338	1,040,720	**986,869**	821,545

Impaired category as shown in the table above includes loan accounts which are individually (Note 29.1.5c) and collectively assessed for impairment.

The total consolidated gross impairment provision for loans and advances amounts to P4,317 million (2016 - P4,955 million), of which P2,002 million (2016 - P2,531 million) represents provision for individually impaired loans and the remaining amount of P2,315 million (2016 - P2,424 million) represents the portfolio provision. Further information of the impairment allowance for loans and advances is provided in Note 10.

When entering into new markets or new industries, the BPI Group focuses on corporate accounts and retail customers with good credit rating and customers providing sufficient collateral, where appropriate or necessary.

Collaterals held as security for Loans and advances are described in Note 10.

(a) Loans and advances neither past due nor impaired

Loans and advances that were neither past due nor impaired consist mainly of accounts with Unclassified rating and those loan accounts in a portfolio to which an impairment has been allocated on a collective basis. Details of these accounts follow:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Corporate entities:				
Large corporate customers	**898,616**	757,037	**878,558**	741,368
Small and medium enterprises	**79,120**	78,289	**52,736**	42,433
Retail customers:				
Credit cards	**112,646**	33,638	**41,813**	32,914
Real estate mortgages	**50,937**	112,349	**11**	17
Auto loans	**42,885**	50,524	**-**	-
Others	**16,574**	4,299	**16,265**	3,990
	1,200,778	1,036,136	**989,383**	820,722

(b) Loans and advances past due but not impaired

The table below presents the gross amount of loans and advances that were past due but not impaired classified by type of borrowers. Collateralized past due loans are not considered impaired when the cash flows that may result from foreclosure of the related collateral are higher than the carrying amount of the loans.

Consolidated

	2017				2016			
	Large corporate customers	Small and medium enterprises	Retail customers	Total	Large corporate customers	Small and medium enterprises	Retail customers	Total
				(In Millions of Pesos)				
Past due up to 30 days	**503**	**142**	**507**	**1,152**	293	243	2,325	2,861
Past due 31 - 90 days	**144**	**204**	**1,446**	**1,794**	225	274	1,363	1,862
Past due 91 - 180 days	**715**	**198**	**7**	**920**	232	159	110	501
Over 180 days	**94**	**281**	-	**375**	60	14	3	77
	1,456	**825**	**1,960**	**4,241**	810	690	3,801	5,301
Fair value of collateral				**2,736**				1,925

Parent

	2017				2016			
	Large corporate customers	Small and medium enterprises	Retail customers	Total	Large corporate customers	Small and medium enterprises	Retail customers	Total
				(In Millions of Pesos)				
Past due up to 30 days	**362**	**30**	**63**	**455**	226	46	1,923	2,195
Past due 31 - 90 days	**91**	**58**	**1,006**	**1,155**	205	33	933	1,171
Past due 91 - 180 days	**326**	**65**	-	**391**	89	66	-	155
Over 180 days	**22**	**96**	-	**118**	-	3	-	3
	801	**249**	**1,069**	**2,119**	520	148	2,856	3,524
Fair value of collateral				**1,010**				527

(c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances (included in Impaired category) by class, along with the fair value of related collateral held by the BPI Group as security, are as follows:

	Consolidated		**Parent**	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Corporate entities:				
Large corporate customers	**5,096**	4,594	**4,613**	4,385
Small and medium enterprises	**4,095**	4,690	**2,017**	2,405
Retail customers:				
Credit cards	**1,735**	1,527	**1,668**	1,498
Auto loans	**7**	2	**5**	-
Others	**298**	378	**263**	259
	11,231	11,191	**8,566**	8,547
Fair value of collateral	**6,444**	6,977	**6,252**	6,481

29.1.6 Credit quality of other financial assets

(a) Due from BSP

Due from BSP are considered fully performing. As at December 31, 2017, the account consists of clearing account and other deposit facilities amounting to P255,948 million (2016 - P239,514 million) for BPI Group and P227,122 (2016 - P203,743 million) for the Parent Bank.

(b) Due from other banks

Due from other banks are considered fully performing at December 31, 2017 and 2016. The table below presents the credit ratings of counterparty banks based on international and domestic credit assessment agencies.

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
AA- to AA+	**3,143**	201	**1,740**	201
A- to A+	**9,371**	16,235	**8,047**	16,196
Lower than A-	**963**	3,992	**961**	3,500
Unrated	**929**	2,609	**146**	661
	14,406	23,037	**10,894**	20,558

(c) Interbank loans receivable and securities purchased under agreements to resell

The table below presents the credit ratings of counterparty banks based on international and domestic credit assessment agencies.

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
A- to A+	**8,865**	8,207	**8,238**	7,210
Lower than A-	**150**	444	**-**	-
Unrated	**2,273**	2,009	**2,266**	1,839
	11,288	10,660	**10,504**	9,049

Securities purchased under agreements to resell includes reverse repurchase agreements amounting to P7,298 million and nil for the BPI Group and Parent Bank, respectively (2016 - P4,576 million and nil for the BPI Group and Parent Bank, respectively), which are made with a sovereign counterparty.

Interbank loans receivable are considered fully performing at December 31, 2017 and 2016.

(d) Derivative financial assets

The table below presents the ratings based on international and domestic credit assessment agencies of counterparties for derivative financial assets at December 31, 2017 and 2016 :

	Consolidated		**Parent**	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
AA- to AA+	**842**	231	**842**	231
A- to A+	**3,357**	1,976	**3,357**	1,976
Lower than A-	**533**	701	**533**	701
Unrated	**243**	85	**243**	85
	4,975	2,993	**4,975**	2,993

(e) Debt securities, treasury bills and other government securities

The table below presents the ratings of debt securities, treasury bills and other government securities at December 31, 2017 and 2016 based on international and domestic credit assessment agencies:

	Consolidated				**Parent**			
	Trading securities	Available-for-sale	Held-to-maturity	**Total**	Trading securities	Available-for-sale	Held-to-maturity	**Total**
				(In Millions of Pesos)				
AAA	768	4,272	7,236	**12,276**	740	1,536	6,616	**8,892**
AA- to AA+	-	1,212	6,574	**7,786**	-	1,121	6,360	**7,481**
A- to A+	-	2,339	24,662	**27,001**	-	1,971	23,654	**25,625**
Lower than A-	4,234	11,345	237,016	**252,595**	3,066	5,041	217,760	**225,867**
Unrated	-	50	1,984	**2,034**	-	-	992	**992**
At December 31, 2017	**5,002**	**19,218**	**277,472**	**301,692**	**3,806**	**9,669**	**255,382**	**268,857**

	Consolidated				Parent			
	Trading securities	Available-for-sale	Held-to-maturity	Total	Trading securities	Available-for-sale	Held-to-maturity	Total
				(In Millions of Pesos)				
AAA	4,074	2,270	4,371	10,715	-	2,018	4,045	6,063
AA- to AA+	2,002	7,778	10,105	19,885	2,002	7,684	9,889	19,575
A- to A+	2,692	8,784	29,543	41,019	2,692	8,530	28,352	39,574
Lower than A-	5,711	1,230	223,330	230,271	5,620	1,055	202,557	209,232
Unrated	-	1,900	1,134	3,034	-	-	1,078	1,078
At December 31, 2016	14,479	21,962	268,483	304,924	10,314	19,287	245,921	275,522

(f) Other financial assets

The BPI Group's other financial assets (shown under Other resources) at December 31, 2017 and 2016 consist mainly of accounts receivable, accrued interest and fees receivable, sales contracts receivable, rental deposits and other financial assets from various unrated counterparties with good credit standing.

29.1.7 Repossessed or foreclosed collaterals

The BPI Group acquires assets by taking possession of collaterals held as security for loans and advances. As at December 31, 2017, the BPI Group's foreclosed collaterals have carrying amount of P3,578 million (2016 - P3,667 million). The related foreclosed collaterals have aggregate fair value of P9,864 million (2016 - P9,753 million). Foreclosed collaterals include real estate (land, building, and improvements), auto and chattel.

Repossessed properties are sold as soon as practicable and are classified as "Assets held for sale" in the statement of condition.

29.1.8 Concentrations of risks of financial assets with credit risk exposure

The BPI Group's main credit exposure at their carrying amounts, as categorized by industry sectors follow:

Consolidated

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
			(In Millions of Pesos)				
Due from BSP	255,948	-	-	-	-	-	**255,948**
Due from other banks	14,406	-	-	-	-	-	**14,406**
Interbank loans receivable and SPAR	18,586	-	-	-	-	-	**18,586**
Financial assets at fair value through profit or loss							
Derivative financial assets	4,786	10	155	-	24	-	**4,975**
Trading securities - debt securities	-	-	1	28	4,973	-	**5,002**
Available-for-sale - debt securities	4,672	-	90	103	14,353	-	**19,218**
Held-to-maturity securities	52,583	704	3,911	1,657	218,617	-	**277,472**
Loans and advances, net	92,472	107,355	198,550	276,262	548,362	(20,663)	**1,202,338**
Other financial assets							
Accounts receivable, net	-	-	-	-	2,472	(442)	**2,030**
Other accrued interest and fees receivable	-	-	-	-	634	-	**634**
Sales contracts receivable, net	-	-	-	-	310	(31)	**279**
Rental deposits	-	-	-	-	563	-	**563**
Others, net	-	-	-	-	1,254	(84)	**1,170**
At December 31, 2017	**443,453**	**108,069**	**202,707**	**278,050**	**791,562**	**(21,220)**	**1,802,621**

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
				(In Millions of Pesos)			
Due from BSP	239,514	-	-	-	-	-	239,514
Due from other banks	23,037	-	-	-	-	-	23,037
Interbank loans receivable and SPAR	15,236	-	-	-	-	-	15,236
Financial assets at fair value through profit or loss							
Derivative financial assets	2,960	-	17	2	14		2,993
Trading securities - debt securities	4,937	-	1	367	9,174	-	14,479
Available-for-sale - debt securities	19,456	-	190	104	2,212	-	21,962
Held-to-maturity securities	54,610	68	3,226	502	210,077	-	268,483
Loans and advances, net	100,395	97,618	168,760	244,152	448,471	(18,676)	1,040,720
Other financial assets							
Accounts receivable, net	-	-	-	-	2,433	(808)	1,625
Other accrued interest and fees receivable	-	-	-	-	637	-	637
Sales contracts receivable, net	-	-	-	-	465	(5)	460
Rental deposits	-	-	-	-	510	-	510
Others, net	-	-	-	-	1,106	(83)	1,023
At December 31, 2016	460,145	97,686	172,194	245,127	675,099	(19,572)	1,630,679

Parent

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
				(In Millions of Pesos)			
Due from BSP	227,122	-	-	-	-	-	**227,122**
Due from other banks	10,894	-	-	-	-	-	**10,894**
Interbank loans receivable and SPAR	10,504	-	-	-	-	-	**10,504**
Financial assets at fair value through profit or loss							
Derivative financial assets	4,786	10	155	-	24	-	**4,975**
Trading securities - debt securities	-	-	-	-	3,806	-	**3,806**
Available-for-sale - debt securities	4,157	-	50	-	5,462	-	**9,669**
Held-to-maturity securities	50,717	-	3,838	1,657	199,170	-	**255,382**
Loans and advances, net	91,123	52,184	194,294	154,682	508,499	(13,913)	**986,869**
Other financial assets							
Accounts receivable, net	-	-	-	-	4,923	(305)	**4,618**
Other accrued interest and fees receivable	-	-	-	-	598	-	**598**
Sales contracts receivable, net	-	-	-	-	310	(31)	**279**
Rental deposits	-	-	-	-	484	-	**484**
Others, net	-	-	-	-	1,248	(76)	**1,172**
At December 31, 2017	**399,303**	**52,194**	**198,337**	**156,339**	**724,524**	**(14,325)**	**1,516,372**

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
			(In Millions of Pesos)				
Due from BSP	203,743	-	-	-	-	-	203,743
Due from other banks	20,558	-	-	-	-	-	20,558
Interbank loans receivable and SPAR	9,049	-	-	-	-	-	9,049
Financial assets at fair value through profit or loss							
Derivative financial assets	2,960	-	17	2	14	-	2,993
Trading securities - debt securities	4,937	-	-	-	5,377	-	10,314
Available-for-sale - debt securities	17,167	-	149	-	1,971	-	19,287
Held-to-maturity securities	52,232	-	3,226	502	189,961	-	245,921
Loans and advances, net	98,727	42,350	162,291	127,117	402,788	(11,728)	821,545
Other financial assets							
Accounts receivable, net	-	-	-	-	1,509	(617)	892
Other accrued interest and fees receivable	-	-	-	-	584	-	584
Sales contracts receivable, net	-	-	-	-	465	(5)	460
Rental deposits	-	-	-	-	430	-	430
Others, net	-	-	-	-	1,106	(76)	1,030
At December 31, 2016	409,373	42,350	165,683	127,621	604,205	(12,426)	1,336,806

Trading, available-for-sale and held-to-maturity securities under "Others" category include local and US treasury bills. Likewise, Loans and advances under the same category pertain to loans granted to individual and retail borrowers belonging to various industry sectors.

29.2 Market risk

The BPI Group is exposed to market risk - the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is managed by the RMO guided by policies and procedures approved by the RMC and confirmed by the Executive Committee/Board of Directors.

Market risk management

Market risk management is incumbent on the Board of Directors through the RMC. Market risk management in BPI covers managing exposures to trading risk, foreign exchange risk, counterparty credit risk, interest rate risk of the banking book and liquidity risk. At the management level, the Bank's market risk exposures are managed by the RMO, headed by the Bank's CRO who reports directly to the RMC. In addition, Internal Audit is responsible for the independent review of risk assessment measures and procedures and the control environment.

The BPI Group reviews and controls market risk exposures of both its trading and non-trading portfolios. Trading portfolios include those positions arising from the BPI Group's market-making transactions. Non-trading portfolios primarily arise from the interest rate management of the BPI Group's retail and commercial banking assets and liabilities.

The BPI Group has exposures in interest rate swaps, currency swaps and structured notes as part of its trading and position taking activities. Derivatives are also used to hedge open exposures to mitigate price risk inherent in the bank's portfolios.

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

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

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

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Local fixed-income	**48**	66	**38**	60
Foreign fixed-income	**47**	61	**37**	40
Foreign exchange	**51**	51	**11**	17
Derivatives	**67**	71	**67**	71
Equity securities	**14**	30	**-**	-
Mutual fund	**3**	3	**-**	-
	230	282	**153**	188

29.2.1 Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in foreign exchange rates. It arises on financial instruments that are denominated in a foreign currency other than the functional currency which they are measured.

The BPI Group takes on exposure to the effects of fluctuations in the prevailing exchange rates on its foreign currency financial position and cash flows. The table below summarizes the BPI Group's exposure to more material foreign currency exchange rate risk at December 31, 2017 and 2016. Included in the table are the BPI Group's financial instruments at carrying amounts, categorized by currency.

Consolidated

	USD	JPY	EUR	GBP	Less - allowance	Total
			(In Millions of Pesos)			
As at December 31, 2017						
Financial Assets						
Cash and other cash items	2,328	141	137	26	-	**2,632**
Due from other banks	9,620	1,489	849	158	-	**12,116**
Interbank loans receivable and SPAR	10,047	-	-	175	-	**10,222**
Financial assets at fair value through profit or loss					-	
Derivative financial assets	1,426	257	50	76	-	**1,809**
Trading securities - debt securities	1,261	-	-	-	-	**1,261**
Available-for-sale securities - debt securities	7,933	-	827	-	-	**8,760**
Held-to-maturity securities	109,117	-	-	1,702	-	**110,819**
Loans and advances, net	136,100	25	3,045	2,393	(1,032)	**140,531**
Others financial assets						
Accounts receivable, net	100	-	-	10	(16)	**94**
Other accrued interest and fees receivable	404	-	33	78	-	**515**
Total financial assets	**278,336**	**1,912**	**4,941**	**4,618**	**(1,048)**	**288,759**
Financial Liabilities						
Deposit liabilities	238,610	1,850	4,030	1,012	-	**245,502**
Derivative financial liabilities	1,429	164	34	87	-	**1,714**
Bills payable	46,820	-	585	-	-	**47,405**
Due to BSP and other banks	578	-	-	-	-	**578**
Manager's checks and demand drafts outstanding	469	-	3	2	-	**474**
Other financial liabilities						
Accounts payable	201	-	1	-	-	**202**
Total financial liabilities	**288,107**	**2,014**	**4,653**	**1,101**	**-**	**295,875**
Net on-balance sheet financial position (in Philippine Peso)	**(9,771)**	**(102)**	**288**	**3,517**	**(1,048)**	**(7,116)**

	USD	JPY	EUR	GBP	Less - allowance	Total
			(In Millions of Pesos)			
As at December 31, 2016						
Financial Assets						
Cash and other cash items	2,566	103	157	29	-	2,855
Due from other banks	15,482	1,744	3,393	240	-	20,859
Interbank loans receivable and SPAR	9,182	-	-	524	-	9,706
Financial assets at fair value through profit or loss						
Derivative financial assets	2,002	-	70	101	-	2,173
Trading securities - debt securities	8,945	-	-	-	-	8,945
Available-for-sale securities - debt securities	18,960	-	-	-	-	18,960
Held-to-maturity securities	90,110	-	-	741	-	90,851
Loans and advances, net	121,204	61	138	2,161	(622)	122,942
Others financial assets						
Accounts receivable, net	81	-	-	4	(16)	69
Other accrued interest and fees receivable	334	-	14	66	-	414
Total financial assets	268,866	1,908	3,772	3,866	(638)	277,774
Financial Liabilities						
Deposit liabilities	210,223	1,618	3,494	1,450	-	216,785
Derivative financial liabilities	1,944	-	50	116	-	2,110
Bills payable	54,301	-	26	-	-	54,327
Due to BSP and other banks	268	-	-	-	-	268
Manager's checks and demand drafts outstanding	133	-	13	3	-	149
Other financial liabilities						
Accounts payable	92	-	2	-	-	94
Total financial liabilities	266,961	1,618	3,585	1,569	-	273,733
Net on-balance sheet financial position (in Philippine Peso)	1,905	290	187	2,297	(638)	4,041

Parent

	USD	JPY	EUR	GBP	Less - allowance	Total
			(In Millions of Pesos)			
As at December 31, 2017						
Financial Assets						
Cash and other cash items	2,128	140	136	23	-	**2,427**
Due from other banks	7,238	1,488	842	127	-	**9,695**
Interbank loans receivable and SPAR	8,240	-	-	-	-	**8,240**
Financial assets at fair value through profit or loss						
Derivative financial assets	1,426	257	50	76	-	**1,809**
Trading securities - debt securities	1,261	-	-	-	-	**1,261**
Available-for-sale securities - debt securities	5,250	-	827	-	-	**6,077**
Held-to-maturity securities	99,360	-	-	412	-	**99,772**
Loans and advances, net	134,977	25	2,460	2,380	(1,024)	**138,818**
Other financial assets						
Accounts receivable, net	100	-	-	-	(16)	**84**
Other accrued interest and fees receivable	391	-	32	63	-	**486**
Total financial assets	**260,371**	**1,910**	**4,347**	**3,081**	**(1,040)**	**268,669**
Financial Liabilities						
Deposit liabilities	225,244	1,850	4,030	757	-	**231,881**
Derivative financial liabilities	1,429	164	34	87	-	**1,714**
Bills payable	43,562	-	-	-	-	**43,562**
Due to BSP and other banks	578	-	-	-	-	**578**
Manager's checks and demand drafts outstanding	461	-	3	2	-	**466**
Other financial liabilities						
Accounts payable	198	-	1	-	-	**199**
Total financial liabilities	**271,472**	**2,014**	**4,068**	**846**	-	**278,400**
Net on-balance sheet financial position (in Philippine Peso)	**(11,101)**	**(104)**	**279**	**2,235**	**(1,040)**	**(9,731)**

	USD	JPY	EUR	GBP	Less - allowance	Total
			(In Millions of Pesos)			
As at December 31, 2016						
Financial Assets						
Cash and other cash items	2,390	103	157	27	-	2,677
Due from other banks	13,836	1,744	3,387	152	-	19,119
Interbank loans receivable and SPAR	7,210	-	-	-	-	7,210
Financial assets at fair value through profit or loss						
Derivative financial assets	2,002	-	70	101	-	2,173
Trading securities - debt securities	5,246	-	-	-	-	5,246
Available-for-sale securities - debt securities	18,840	-	-	-	-	18,840
Held-to-maturity securities	80,318	-	-	-	-	80,318
Loans and advances, net	121,179	61	115	2,142	(617)	122,880
Other financial assets						
Accounts receivable, net	77	-	-	-	(16)	61
Other accrued interest and fees receivable	326	-	14	49	-	389
Total financial assets	251,424	1,908	3,743	2,471	(633)	258,913
Financial Liabilities						
Deposit liabilities	195,466	1,618	3,494	1,183	-	201,761
Derivative financial liabilities	1,944	-	50	115	-	2,109
Bills payable	52,196	-	-	-	-	52,196
Due to BSP and other banks	268	-	-	-	-	268
Manager's checks and demand drafts outstanding	133	-	13	3	-	149
Other financial liabilities						
Accounts payable	90	-	2	-	-	92
Total financial liabilities	250,097	1,618	3,559	1,301	-	256,575
Net on-balance sheet financial position (in Philippine Peso)	1,327	290	184	1,170	(633)	2,338

Presented below is a sensitivity analysis demonstrating the impact on the BPI Group's and the Parent Bank's pre-tax income of reasonably possible change in the exchange rate between US Dollar and Philippine Peso. The fluctuation rate is based on the historical movement of US Dollar year on year.

		Effect on pre-tax income (In Millions of Pesos)	
Year	Change in currency	Consolidated	Parent
2017	**+/- 1.17%**	**+/- 114**	**+/- 130**
2016	+/- 2.33%	+/- 30	+/- 17

29.2.2 Interest rate risk

Interest rate risk is the risk that the BPI Group will experience deterioration in its financial position brought about by movements in the absolute level of interest rates. Interest rate risk in the banking book arises from the BPI Group's core banking activities. The main source of this type of interest rate risk is re-pricing risk, which reflects the fact that the BPI Group's assets and liabilities have different maturities and are re-priced at different interest rates. The Bank employs two methods to measure the potential impact of interest rate risk in Group's financial positions - (i) one that focuses on the economic value of the banking book, and (ii) one that focuses on net interest earnings. The RMC sets limits on the two interest rate risk metrics which are monitored monthly by the Market Risk Division of the RMO.

First, the BPI Group employs the Balance Sheet Value-at-Risk (BSVaR) metric to measure the impact of interest rate movements on the economic value of banking book. The BSVaR is founded on re-pricing gaps, or the difference between the amounts of rate-sensitive assets and the amounts of rate-sensitive liabilities. The BSVaR, therefore, estimates the "riskiness of the balance sheet" and compares the degree of risk taking activity in the banking books from one period to the next. The BSVaR assumes a static balance sheet, i.e., there will be no new transactions moving forward and no portfolio rebalancing will be undertaken in response to future changes in market rates. In consideration of the static framework and the fact that incomes from the banking book is accrued rather than generated from marking-to-market, the probable loss that is estimated by the BSVaR is not realized in accounting income.

The Bank sets limits for BPI Group and each legal entity based on estimated equity duration, assumed movement of market rates (in basis points) and estimated equity value. As at December 31, the average BSVaR, computed on a monthly basis, for the banking or non-trading book are as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
BSVaR	**10,586**	3,142	**9,310**	2,695

The second re-pricing risk metric used by the Bank is Earnings-at-Risk (EaR). This metric measures the potential deterioration in the Bank's net interest income due to changes in interest rates. The Bank's earnings are affected when movements in borrowing and lending rates are not perfectly synchronized, which create a gap due to such mismatch. Based on the banking book positions as at particular valuation dates, the Group projects interest receivables out of its assets, and interest payables on its liabilities, in the next 12 months. Net interest income - the difference between interest receipts and payments - is projected in this exercise. BPI, on a group level, is positively gapped hence increase in rates becomes beneficial to the Bank. As of December 31, 2017, the net interest income impact of movement in interest rates amounts to P406 million (2016 - P293 million).

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

Consolidated

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2017					
Financial Assets					
Cash and other cash items	-	-	-	35,132	**35,132**
Due from BSP	-	-	-	255,948	**255,948**
Due from other banks	-	-	-	14,406	**14,406**
Interbank loans receivable and SPAR	-	-	-	18,586	**18,586**
Financial assets at fair value through profit or loss					
Derivative financial assets	73	327	1,110	3,465	**4,975**
Trading securities - debt securities	-	-	-	5,002	**5,002**
Available-for-sale - debt securities	1,991	245	-	16,982	**19,218**
Held-to-maturity securities	-	1	-	277,471	**277,472**
Loans and advances, net	744,317	79,649	267,120	111,252	**1,202,338**
Other financial assets					
Accounts receivable, net	-	-	-	2,030	**2,030**
Other accrued interest and fees receivable	-	-	-	634	**634**
Sales contracts receivable, net	-	-	-	279	**279**
Rental deposits	-	-	-	563	**563**
Others, net	-	-	-	1,170	**1,170**
Total financial assets	**746,381**	**80,222**	**268,230**	**742,920**	**1,837,753**
Financial Liabilities					
Deposit liabilities	818,811	556,700	186,689	-	**1,562,200**
Derivative financial liabilities	46	263	1,072	3,407	**4,788**
Bills payable	-	19,846	-	63,671	**83,517**
Due to BSP and other banks	-	-	-	1,218	**1,218**
Manager's checks and demand drafts outstanding	-	-	-	7,022	**7,022**
Other financial liabilities					
Accounts payable	-	-	-	5,534	**5,534**
Dividends payable	-	-	-	3,545	**3,545**
Outstanding acceptances	-	-	-	2,992	**2,992**
Deposits on lease contracts	-	-	-	2,136	**2,136**
Others	-	-	-	1,254	**1,254**
Total financial liabilities	**818,857**	**576,809**	**187,761**	**90,779**	**1,674,206**
Total interest gap	**(72,476)**	**(496,587)**	**80,469**	**652,141**	**163,547**

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
	(In Millions of Pesos)				
As at December 31, 2016					
Financial Assets					
Cash and other cash items	-	-	-	35,692	35,692
Due from BSP	-	-	-	239,514	239,514
Due from other banks	-	-	-	23,037	23,037
Interbank loans receivable and SPAR	-	-	-	15,236	15,236
Financial assets at fair value through profit or loss					
Derivative financial assets	1,574	627	792	-	2,993
Trading securities - debt securities	-	-	-	14,479	14,479
Available-for-sale - debt securities	12,476	1,996	245	7,245	21,962
Held-to-maturity securities	1	-	1	268,481	268,483
Loans and advances, net	743,278	66,798	167,822	62,822	1,040,720
Other financial assets					
Accounts receivable, net	-	-	-	1,625	1,625
Other accrued interest and fees receivable	-	-	-	637	637
Sales contracts receivable, net	-	-	-	460	460
Rental deposits	-	-	-	510	510
Others, net	-	-	-	1,023	1,023
Total financial assets	757,329	69,421	168,860	670,761	1,666,371
Financial Liabilities					
Deposit liabilities	806,779	580,998	43,523	-	1,431,300
Derivative financial liabilities	1,985	319	808	-	3,112
Bills payable	-	19,693	-	42,280	61,973
Due to BSP and other banks	-	-	-	670	670
Manager's checks and demand drafts outstanding	-	-	-	7,579	7,579
Other financial liabilities					
Accounts payable	-	-	-	4,875	4,875
Outstanding acceptances	-	-	-	1,452	1,452
Deposits on lease contracts	-	-	-	1,970	1,970
Dividends payable	-	-	-	3,543	3,543
Others	-	-	-	1,786	1,786
Total financial liabilities	808,764	601,010	44,331	64,155	1,518,260
Total interest gap	(51,435)	(531,589)	124,529	606,606	148,111

Parent

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2017					
Financial Assets					
Cash and other cash items	-	-	-	34,160	**34,160**
Due from BSP	-	-	-	227,122	**227,122**
Due from other banks	-	-	-	10,894	**10,894**
Interbank loans receivable and SPAR	-	-	-	10,504	**10,504**
Financial assets at fair value through profit or loss					
Derivative financial assets	73	327	1,110	3,465	**4,975**
Trading securities - debt securities	-	-	-	3,806	**3,806**
Available-for-sale - debt securities	1,991	245	-	7,433	**9,669**
Held-to-maturity securities	-	1	-	255,381	**255,382**
Loans and advances, net	679,036	37,490	216,993	53,350	**986,869**
Other financial assets					
Accounts receivable, net	-	-	-	4,618	**4,618**
Other accrued interest and fees receivable	-	-	-	598	**598**
Sales contracts receivable, net	-	-	-	279	**279**
Rental deposits	-	-	-	484	**484**
Others, net	-	-	-	1,172	**1,172**
Total financial assets	**681,100**	**38,063**	**218,103**	**613,266**	**1,550,532**
Financial Liabilities					
Deposit liabilities	726,560	494,304	103,099	-	**1,323,963**
Derivative financial liabilities	46	263	1,072	3,407	**4,788**
Bills payable	-	19,846	-	50,876	**70,722**
Due to BSP and other banks	-	-	-	1,218	**1,218**
Manager’s checks and demand drafts outstanding	-	-	-	5,762	**5,762**
Other financial liabilities					
Accounts payable	-	-	-	3,339	**3,339**
Dividends payable	-	-	-	3,545	**3,545**
Outstanding acceptances	-	-	-	2,992	**2,992**
Others	-	-	-	1,242	**1,242**
Total financial liabilities	**726,606**	**514,413**	**104,171**	**72,381**	**1,417,571**
Total interest gap	**(45,506)**	**(476,350)**	**113,932**	**540,885**	**132,961**

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
	(In Millions of Pesos)				
As at December 31, 2016					
Financial Assets					
Cash and other cash items	-	-	-	34,855	34,855
Due from BSP	-	-	-	203,743	203,743
Due from other banks	-	-	-	20,558	20,558
Interbank loans receivable and SPAR	-	-	-	9,049	9,049
Financial assets at fair value through profit or loss					
Derivative financial assets	1,574	627	792	-	2,993
Trading securities - debt securities	-	-	-	10,314	10,314
Available-for-sale - debt securities	12,476	1,996	245	4,570	19,287
Held-to-maturity securities	1	-	1	245,919	245,921
Loans and advances, net	672,099	26,674	111,374	11,398	821,545
Other financial assets					
Accounts receivable, net	-	-	-	892	892
Other accrued interest and fees receivable	-	-	-	584	584
Sales contracts receivable, net	-	-	-	460	460
Rental deposits	-	-	-	430	430
Others, net	-	-	-	1,030	1,030
Total financial assets	686,150	29,297	112,412	543,802	1,371,661
Financial Liabilities					
Deposit liabilities	572,877	515,446	96,155	-	1,184,478
Derivative financial liabilities	1,985	319	808	-	3,112
Bills payable	-	19,693	-	32,564	52,257
Due to BSP and other banks	-	-	-	670	670
Manager's checks and demand drafts outstanding	-	-	-	5,893	5,893
Other financial liabilities					
Accounts payable	-	-	-	3,325	3,325
Outstanding acceptances	-	-	-	1,452	1,452
Dividends payable	-	-	-	3,543	3,543
Others	-	-	-	1,245	1,245
Total financial liabilities	574,862	535,458	96,963	48,692	1,255,975
Total interest gap	111,288	(506,161)	15,449	495,110	115,686

29.3 Liquidity risk

Liquidity risk is the risk that the BPI Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

The Bank's liquidity profile is observed and monitored through its metric, the Minimum Cumulative Liquidity Gap (MCLG). The MCLG is the smallest net cumulative cash inflow (if positive) or the largest net cumulative cash outflow (if negative) over the next three (3) months. The MCLG indicates the biggest funding requirement in the short term and the degree of liquidity risk present in the current cash flow profile of the Bank. A red flag is immediately raised and reported to management and the RMC when the MCLG level projected over the next 3 months is about to breach the RMC-prescribed MCLG limit.

29.3.1 Liquidity risk management process

The BPI Group's liquidity management process, as carried out within the BPI Group and monitored by the RMC includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or as borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring liquidity gaps against internal and regulatory requirements (Note 16);
- Managing the concentration and profile of debt maturities; and
- Performing periodic liquidity stress testing on the BPI Group's liquidity position by assuming a faster rate of withdrawals in its deposit base.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities (Notes 29.3.3 and 29.3.4) and the expected collection date of the financial assets.

The BPI Group also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit.

29.3.2 Funding approach

Sources of liquidity are regularly reviewed by the BPI Group to maintain a wide diversification by currency, geography, counterparty, product and term.

29.3.3 Non-derivative cash flows

The table below presents the maturity profile of non-derivative financial instruments based on undiscounted cash flows, including interest, which the BPI Group uses to manage the inherent liquidity risk. The maturity analysis is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date the financial asset will be realized or the financial liability will be settled.

<u>Consolidated</u>

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2017				
Financial Assets				
Cash and other cash items	35,132	-	-	**35,132**
Due from BSP	255,965	-	-	**255,965**
Due from other banks	14,406	-	-	**14,406**
Interbank loans receivable and SPAR	19,457	217	306	**19,980**
Financial assets at fair value through profit or loss				
Trading securities - debt securities	1,959	601	3,140	**5,700**
Available-for-sale securities - debt securities	10,489	2,931	7,734	**21,154**
Held-to-maturity securities	29,157	58,551	260,276	**347,984**
Loans and advances, net	661,461	179,426	532,172	**1,373,059**
Other financial assets				
Accounts receivable, net	2,030	-	-	**2,030**
Other accrued interest and fees receivable	634	-	-	**634**
Sales contracts receivable, net	279	-	-	**279**
Rental deposits	563	-	-	**563**
Others, net	1,170	-	-	**1,170**
Total financial assets	**1,032,702**	**241,726**	**803,628**	**2,078,056**
Financial Liabilities				
Deposit liabilities	714,564	733,100	142,546	**1,590,210**
Bills payable	64,511	20,207	-	**84,718**
Due to BSP and other banks	1,218	-	-	**1,218**
Manager's checks and demand drafts outstanding	7,022	-	-	**7,022**
Other financial liabilities				
Accounts payable	5,534	-	-	**5,534**
Outstanding acceptances	2,992	-	-	**2,992**
Deposits on lease contracts	2,136	-	-	**2,136**
Dividends payable	3,545	-	-	**3,545**
Others	1,254	-	-	**1,254**
Total financial liabilities	**802,776**	**753,307**	**142,546**	**1,698,629**
Total maturity gap	**229,926**	**(511,581)**	**661,082**	**379,427**

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2016				
Financial Assets				
Cash and other cash items	35,692	-	-	35,692
Due from BSP	239,539	-	-	239,539
Due from other banks	23,037	-	-	23,037
Interbank loans receivable and SPAR	14,833	238	371	15,442
Financial assets at fair value through profit or loss				
Trading securities - debt securities	13,615	532	864	15,011
Available-for-sale securities - debt securities	15,393	4,094	3,339	22,826
Held-to-maturity securities	45,425	61,683	230,340	337,448
Loans and advances, net	501,878	106,506	475,347	1,083,731
Other financial assets				
Accounts receivable, net	1,625	-	-	1,625
Other accrued interest and fees receivable	637	-	-	637
Sales contracts receivable, net	460	-	-	460
Rental deposits	510	-	-	510
Others, net	1,023	-	-	1,023
Total financial assets	893,667	173,053	710,261	1,776,981
Financial Liabilities				
Deposit liabilities	480,124	234,072	734,648	1,448,844
Bills payable	35,306	28,372	-	63,678
Due to BSP and other banks	670	-	-	670
Manager's checks and demand drafts outstanding	7,579	-	-	7,579
Other financial liabilities				
Accounts payable	4,875	-	-	4,875
Outstanding acceptances	1,452	-	-	1,452
Deposits on lease contracts	1,970	-	-	1,970
Dividends payable	3,543	-	-	3,543
Others	1,786	-	-	1,786
Total financial liabilities	537,305	262,444	734,648	1,534,397
Total maturity gap	356,362	(89,391)	(24,387)	242,584

Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2017				
Financial Assets				
Cash and other cash items	34,160	-	-	**34,160**
Due from BSP	227,122	-	-	**227,122**
Due from other banks	10,894	-	-	**10,894**
Interbank loans receivable and SPAR	10,140	217	306	**10,663**
Financial assets at fair value through profit or loss				
Trading securities - debt securities	1,697	197	2,449	**4,343**
Available-for-sale securities - debt securities	2,344	2,400	6,538	**11,282**
Held-to-maturity securities	26,387	52,523	242,121	**321,031**
Loans and advances, net	604,818	129,349	415,758	**1,149,925**
Other financial assets, net				
Accounts receivable, net	4,618	-	-	**4,618**
Other accrued interest and fees receivable	598	-	-	**598**
Sales contracts receivable, net	279	-	-	**279**
Rental deposits	484	-	-	**484**
Others, net	1,172	-	-	**1,172**
Total financial assets	**924,713**	**184,686**	**667,172**	**1,776,571**
Financial Liabilities				
Deposit liabilities	607,581	626,359	105,246	**1,339,186**
Bills payable	51,553	20,207	-	**71,760**
Due to BSP and other banks	1,218	-	-	**1,218**
Manager's checks and demand drafts outstanding	5,762	-	-	**5,762**
Other financial liabilities				
Accounts payable	3,339	-	-	**3,339**
Outstanding acceptances	2,992	-	-	**2,992**
Dividends payable	3,545	-	-	**3,545**
Others	1,242	-	-	**1,242**
Total financial liabilities	**677,232**	**646,566**	**105,246**	**1,429,044**
Total maturity gap	**247,481**	**(461,880)**	**561,926**	**347,527**

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2016				
Financial Assets				
Cash and other cash items	34,855	-	-	34,855
Due from BSP	203,747	-	-	203,747
Due from other banks	20,558	-	-	20,558
Interbank loans receivable and SPAR	8,785	223	181	9,189
Financial assets at fair value through profit or loss				
Trading securities - debt securities	9,870	46	858	10,774
Available-for-sale securities - debt securities	13,141	3,735	3,241	20,117
Held-to-maturity securities	42,447	57,001	209,576	309,024
Loans and advances, net	444,691	70,089	342,750	857,530
Other financial assets, net				
Accounts receivable, net	892	-	-	892
Other accrued interest and fees receivable	584	-	-	584
Sales contracts receivable, net	460	-	-	460
Rental deposits	430	-	-	430
Others, net	1,030	-	-	1,030
Total financial assets	781,490	131,094	556,606	1,469,190
Financial Liabilities				
Deposit liabilities	377,784	196,485	624,237	1,198,506
Bills payable	25,615	28,131	-	53,746
Due to BSP and other banks	670	-	-	670
Manager's checks and demand drafts outstanding	5,893	-	-	5,893
Other financial liabilities				
Accounts payable	3,325	-	-	3,325
Outstanding acceptances	1,452	-	-	1,452
Dividends payable	3,543	-	-	3,543
Others	1,245	-	-	1,245
Total financial liabilities	419,527	224,616	624,237	1,268,380
Total maturity gap	361,963	(93,522)	(67,631)	200,810

29.3.4 Derivative cash flows

(a) Derivatives settled on a net basis

The BPI Group's derivatives that are settled on a net basis consist of interest rate swaps, non-deliverable forwards and non-deliverable swaps. The table below presents the contractual undiscounted cash flows of interest rate swaps based on the remaining period from December 31 to the contractual maturity dates that are subject to offsetting, enforceable master netting arrangements and similar agreements.

Consolidated and Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2017		(In Millions of Pesos)		
Interest rate swap contracts - held for trading				
- Inflow	73	319	1,114	1,506
- Outflow	(46)	(245)	(1,090)	(1,381)
- Net inflow	**27**	**74**	**24**	**125**
Non-deliverable forwards and swaps - held for trading				
- Inflow	30,387	-	-	30,387
- Outflow	(30,661)	-	-	(30,661)
- Net outflow	**(274)**	**-**	**-**	**(274)**

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2016		(In Millions of Pesos)		
Interest rate swap contracts - held for trading				
- Inflow	254	372	797	1,423
- Outflow	(210)	(303)	(808)	(1,321)
- Net inflow (outflow)	44	69	(11)	102
Non-deliverable forwards and swaps - held for trading				
- Inflow	988	-	-	988
- Outflow	(990)	-	-	(990)
- Net outflow	(2)	-	-	(2)

(b) Derivatives settled on a gross basis

The BPI Group's derivatives that are settled on a gross basis include foreign exchange derivatives mainly currency forwards and currency swaps. The table below presents the contractual undiscounted cash flows of foreign exchange derivatives based on the remaining period from reporting date to the contractual maturity dates.

Consolidated and Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
Foreign exchange derivatives - held for trading				
2017				
- Inflow	178,511	99	-	178,610
- Outflow	(178,183)	(100)	-	(178,283)
- **Net inflow (outflow)**	**328**	**(1)**	**-**	**327**
2016				
- Inflow	120,012	4,130	-	124,142
- Outflow	(120,469)	(3,892)	-	(124,361)
- Net (outflow) inflow	(457)	238	-	(219)

29.4 Fair value of financial assets and liabilities

The table below summarizes the carrying amount and fair value of those significant financial assets and liabilities not presented on the statement of condition at fair value at December 31.

Consolidated

	Carrying amount		Fair value	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Financial assets				
Cash and other cash items	**35,132**	35,692	**35,132**	35,692
Due from BSP	**255,948**	239,514	**255,948**	239,514
Due from other banks	**14,406**	23,037	**14,406**	23,037
Interbank loans receivable and SPAR	**18,586**	15,236	**18,586**	15,236
Held-to-maturity securities	**277,472**	268,483	**268,301**	261,742
Loans and advances, net	**1,202,338**	1,040,720	**1,250,321**	1,225,785
Other financial assets				
Accounts receivable, net	**2,030**	1,625	**2,030**	1,625
Other accrued interest and fees receivable	**634**	637	**634**	637
Sales contracts receivable, net	**279**	460	**279**	460
Rental deposits	**563**	510	**563**	510
Others, net	**1,170**	1,023	**1,170**	1,023
Financial liabilities				
Deposit liabilities	**1,562,200**	1,431,300	**1,533,475**	1,422,203
Bills payable	**83,517**	61,973	**83,154**	61,489
Due to BSP and other banks	**1,218**	670	**1,218**	670
Manager's checks and demand drafts outstanding	**7,022**	7,579	**7,022**	7,579
Other financial liabilities				
Accounts payable	**5,534**	4,875	**5,534**	4,875
Outstanding acceptances	**2,992**	1,452	**2,992**	1,452
Deposits on lease contracts	**2,136**	1,970	**2,136**	1,970
Dividends payable	**3,545**	3,543	**3,545**	3,543
Others	**1,254**	1,786	**1,254**	1,786

Parent

	Carrying amount		Fair value	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Financial assets				
Cash and other cash items	**34,160**	34,855	**34,160**	34,855
Due from BSP	**227,122**	203,743	**227,122**	203,743
Due from other banks	**10,894**	20,558	**10,894**	20,558
Interbank loans receivable and SPAR	**10,504**	9,049	**10,504**	9,049
Held-to-maturity securities	**255,382**	245,921	**246,219**	238,906
Loans and advances, net	**986,869**	821,545	**1,008,730**	981,180
Other financial assets				
Accounts receivable, net	**4,618**	892	**4,618**	892
Other accrued interest and fees receivable	**598**	584	**598**	584
Sales contracts receivable, net	**279**	460	**279**	460
Rental deposits	**484**	430	**484**	430
Others, net	**1,172**	1,030	**1,172**	1,030
Financial liabilities				
Deposit liabilities	**1,323,963**	1,184,478	**1,296,092**	1,173,276
Bills payable	**70,722**	52,257	**70,284**	51,772
Due to BSP and other banks	**1,218**	670	**1,218**	670
Manager's checks and demand drafts outstanding	**5,762**	5,893	**5,762**	5,893
Other financial liabilities				
Accounts payable	**3,339**	3,325	**3,339**	3,325
Outstanding acceptances	**2,992**	1,452	**2,992**	1,452
Dividends payable	**3,545**	3,543	**3,545**	3,543
Others	**1,242**	1,245	**1,242**	1,245

(i) Cash and other cash items, due from BSP and other banks and interbank loans receivable and SPAR

The fair value of floating rate placements and overnight deposits approximates their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. All of these financial assets have a maturity of one year, thus their fair values approximate their carrying amounts.

(ii) Investment securities

Fair value of held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(iii) Loans and advances

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted with the use of assumptions regarding appropriate credit spread for the loan, derived from other market instruments.

(iv) Financial liabilities

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using market interest rates for new debts with similar remaining maturity.

(v) Other financial assets / liabilities

Carrying amounts of other financial assets / liabilities which have no definite repayment dates are assumed to be their fair values.

29.5 Fair value hierarchy

The following table presents the fair value hierarchy of the BPI Group's assets and liabilities at December 31:

Consolidated

	Fair value		
2017	Level 1	Level 2	**Total**
Recurring measurements	(In Millions of Pesos)		
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	4,981	**4,981**
Trading securities			
- Debt securities	4,973	29	**5,002**
- Equity securities	330	-	**330**
Available-for-sale financial assets			
- Debt securities	16,981	2,237	**19,218**
- Equity securities	3,755	661	**4,416**
	26,039	7,908	**33,947**
Financial liabilities			
Derivative financial liabilities	-	4,788	**4,788**
Non-recurring measurements			
Assets held for sale, net	-	1,617	**1,617**

2017	Level 1	Fair value Level 2	Total
Fair values disclosed		(In Millions of Pesos)	
Financial assets			
Cash and other cash items	-	35,132	**35,132**
Due from BSP	-	255,948	**255,948**
Due from other banks	-	14,406	**14,406**
Interbank loans receivable and SPAR	-	18,586	**18,586**
Held-to-maturity securities	264,379	3,922	**268,301**
Loans and advances, net	-	1,250,321	**1,250,321**
Other financial assets			
Accounts receivable, net	-	2,030	**2,030**
Other accrued interest and fees receivable	-	634	**634**
Sales contracts receivable, net	-	279	**279**
Rental deposits	-	563	**563**
Others, net	-	1,170	**1,170**
Financial liabilities			
Deposit liabilities	-	1,533,475	**1,533,475**
Bills payable	-	83,154	**83,154**
Due to BSP and other banks	-	1,218	**1,218**
Manager's checks and demand drafts outstanding	-	7,022	**7,022**
Other financial liabilities			
Accounts payable	-	5,534	**5,534**
Outstanding acceptances	-	2,992	**2,992**
Deposits on lease contracts	-	2,136	**2,136**
Dividends payable	-	3,545	**3,545**
Others	-	1,254	**1,254**
Non-financial assets			
Investment properties	-	1,281	**1,281**

2016	Level 1	Fair value Level 2	Total
Recurring measurements		(In Millions of Pesos)	
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	2,993	2,993
Trading securities			
- Debt securities	9,411	5,068	14,479
- Equity securities	124	-	124
Available-for-sale financial assets			
- Debt securities	8,282	13,680	21,962
- Equity securities	1,991	266	2,257
	19,808	22,007	41,815
Financial liabilities			
Derivative financial liabilities	-	3,112	3,112
Non-recurring measurements			
Assets held for sale, net	-	2,267	2,267

2016	Fair value Level 1	Level 2	Total
Fair values disclosed		(In Millions of Pesos)	
Financial assets			
Cash and other cash items	-	35,692	35,692
Due from BSP	-	239,514	239,514
Due from other banks	-	23,037	23,037
Interbank loans receivable and SPAR	-	15,236	15,236
Held-to-maturity securities	258,266	3,476	261,742
Loans and advances, net	-	1,225,785	1,225,785
Other financial assets			
Accounts receivable, net	-	1,625	1,625
Other accrued interest and fees receivable	-	637	637
Sales contracts receivable, net	-	460	460
Rental deposits	-	510	510
Others, net	-	1,023	1,023
Financial liabilities			
Deposit liabilities	-	1,422,203	1,422,203
Bills payable	-	61,489	61,489
Due to BSP and other banks	-	670	670
Manager's checks and demand drafts outstanding	-	7,579	7,579
Other financial liabilities			
Accounts payable	-	4,875	4,875
Outstanding acceptances	-	1,452	1,452
Deposits on lease contracts	-	1,970	1,970
Dividends payable	-	3,543	3,543
Others	-	1,786	1,786
Non-financial assets			
Investment properties	-	3,090	3,090

Parent

2017	Fair value Level 1	Level 2	**Total**
Recurring measurements		(In Millions of Pesos)	
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	4,975	**4,975**
Trading securities - debt securities	3,806	-	**3,806**
Available-for-sale financial assets			
- Debt securities	7,433	2,236	**9,669**
- Equity securities	447	232	**679**
	11,686	**7,443**	**19,129**
Financial liabilities			
Derivative financial liabilities	-	4,788	**4,788**
Non-recurring measurements			
Assets held for sale, net	-	656	**656**

2017	Fair value Level 1	 Level 2	 **Total**
Fair values disclosed		(In Millions of Pesos)	
Financial assets			
Cash and other cash items	-	34,160	**34,160**
Due from BSP	-	227,122	**227,122**
Due from other banks	-	10,894	**10,894**
Interbank loans receivable and SPAR	-	10,504	**10,504**
Held-to-maturity securities	242,297	3,922	**246,219**
Loans and advances, net	-	1,008,730	**1,008,730**
Other financial assets			
Accounts receivable, net	-	4,618	**4,618**
Other accrued interest and fees receivable	-	598	**598**
Sales contracts receivable, net	-	279	**279**
Rental deposits	-	484	**484**
Others, net	-	1,172	**1,172**
Financial liabilities			
Deposit liabilities	-	1,296,092	**1,296,092**
Bills payable	-	70,284	**70,284**
Due to BSP and other banks	-	1,218	**1,218**
Manager's checks and demand drafts outstanding	-	5,762	**5,762**
Other financial liabilities			
Accounts payable	-	3,339	**3,339**
Outstanding acceptances	-	2,992	**2,992**
Dividends payable	-	3,545	**3,545**
Others	-	1,242	**1,242**
Non-financial assets			
Investment properties	-	1,281	**1,281**

2016	Fair value Level 1	 Level 2	 Total
Recurring measurements		(In Millions of Pesos)	
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	2,993	2,993
Trading securities - debt securities	5,621	4,693	10,314
Available-for-sale financial assets			
- Debt securities	6,068	13,219	19,287
- Equity securities	248	-	248
	11,937	20,905	32,842
Financial liabilities			
Derivative financial liabilities	-	3,112	3,112
Non-recurring measurements			
Assets held for sale, net	-	1,036	1,036

2016	Fair value Level 1	Level 2	Total
Fair values disclosed	(In Millions of Pesos)		
Financial assets			
Cash and other cash items	-	34,855	34,855
Due from BSP	-	203,743	203,743
Due from other banks	-	20,558	20,558
Interbank loans receivable and SPAR	-	9,049	9,049
Held-to-maturity securities	235,430	3,476	238,906
Loans and advances, net	-	981,180	981,180
Other financial assets			
Accounts receivable, net	-	892	892
Other accrued interest and fees receivable	-	584	584
Sales contracts receivable, net	-	460	460
Rental deposits	-	430	430
Others, net	-	1,030	1,030
Financial liabilities			
Deposit liabilities	-	1,173,276	1,173,276
Bills payable	-	51,772	51,772
Due to BSP and other banks	-	670	670
Manager's checks and demand drafts outstanding	-	5,893	5,893
Other financial liabilities			
Accounts payable	-	3,325	3,325
Outstanding acceptances	-	1,452	1,452
Dividends payable	-	3,543	3,543
Others	-	1,245	1,245
Non-financial assets			
Investment properties	-	3,090	3,090

The BPI Group has no financial instruments, other assets or liabilities with non-recurring fair value measurements or with fair values disclosed that fall under the Level 3 category as at December 31, 2017 and 2016. There were no transfers between Level 1 and Level 2 during the years ended December 31, 2017 and 2016.

29.6 Insurance risk management

The non-life insurance entities decide on the retention, or the absolute amount that they are ready to assume insurance risk from one event. The retention amount is a function of capital, experience, actuarial study and risk appetite or aversion.

In excess of the retention, these entities arrange reinsurances either thru treaties or facultative placements. They also accredit reinsurers based on certain criteria and set limits as to what can be reinsured. The reinsurance treaties and the accreditation of reinsurers require Board of Directors' approval.

29.7 Capital management

Cognizant of its exposure to risks, the BPI Group understands that it must maintain sufficient capital to absorb unexpected losses, to stay in business for the long haul, and to satisfy regulatory requirements. The BPI Group further understands that its performance, as well as the performance of its various units, should be measured in terms of returns generated vis-à-vis allocated capital and the amount of risk borne in the conduct of business.

The BPI Group manages its capital following the framework of Basel Committee on Banking Supervision Accord II (Basel II) and its implementation in the Philippines by the BSP. The BSP through its Circular 538 requires each bank and its financial affiliated subsidiaries to keep its Capital Adequacy Ratio (CAR) - the ratio of qualified capital to risk-weighted exposures - to be no less than 10%. In quantifying its CAR, BPI currently uses the Standardized Approach (for credit risk and market risk) and the Basic Indicator Approach (for operational risk). Capital adequacy reports are filed with the BSP every quarter.

Qualifying capital and risk-weighted assets are computed based on BSP regulations. The qualifying capital of the Parent Bank consists of core tier 1 capital and tier 2 capital. Tier 1 capital comprises paid-up capital stock, paid-in surplus, surplus including net income for the year, surplus reserves and minority interest less deductions such as deferred income tax, unsecured credit accommodations to DOSRI, goodwill and net unrealized fair value losses on available-for-sale securities. Tier 2 capital includes general loan loss provisions for BSP reporting purposes.

The Basel II framework following BSP Circular 538 took into effect on July 1, 2007 and was relevant until 2013.

Effective January 1, 2014, the BSP, through its Circular 781, requires each bank and its financial affiliated subsidiaries to adopt new capital requirements in accordance with the provisions of Basel III. The new guidelines are meant to strengthen the composition of the Bank's capital by increasing the level of core capital and regulatory capital. The Circular sets out minimum Common Equity Tier 1 (CET1) ratio and Tier 1 Capital ratios of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed. The minimum required capital adequacy ratio remains at 10% which includes the capital conservation buffer.

In addition, existing capital requirements as at December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III.

The table below summarizes the CAR of the Bank (combined regular and FCDU books) under the Basel III framework for the years ended December 31, 2017 and 2016.

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Tier 1 capital	**177,172**	160,901	**176,842**	160,549
Tier 2 capital	**11,682**	10,299	**10,180**	8,722
Gross qualifying capital	**188,854**	171,200	**187,022**	169,271
Less: Regulatory adjustments/required deductions	**22,371**	22,210	**59,246**	58,155
Total qualifying capital	**166,483**	148,990	**127,776**	111,116
Risk weighted assets	**1,306,907**	1,145,846	**1,122,119**	956,478
CAR (%)	**12.74**	13.00	**11.39**	11.62
CET1 (%)	**11.84**	12.10	**10.48**	10.71

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

Likewise, the BPI Group manages the capital of its non-life insurance subsidiaries, pre-need subsidiary and securities dealer subsidiaries in accordance with the capital requirements of the relevant regulatory agency, such as Insurance Commission, Philippine SEC and PSE. These subsidiaries have fully complied with the relevant capital requirements.

As part of the reforms of the PSE to expand capital market and improve transparency among listed firms, PSE requires listed entities to maintain a minimum of ten percent (10%) of their issued and outstanding shares, exclusive of any treasury shares, held by the public. The Parent Bank has fully complied with this requirement.

On January 17, 2018, the Board of Directors approved the capital raising of up to P50 billion through a stock rights offering of common shares to eligible shareholders to support its growth and strategic initiatives in the coming years. The BPI Group expects to launch the rights offer after receiving the required regulatory approvals.

Note 30 - Commitments and Contingencies

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

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

In the normal course of business, the BPI Group makes various commitments (Note 29.1.4) that are not presented in the financial statements. The BPI Group does not anticipate any material losses from these commitments.

Note 31 - Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

31.1 Basis of preparation

The financial statements of the BPI Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

As allowed by the SEC, the pre-need subsidiary of the Parent Bank continues to follow the provisions of the Pre-Need Uniform Chart of Accounts (PNUCA) prescribed by the SEC and adopted by the Insurance Commission.

The financial statements comprise the statement of condition, statement of income and statement of comprehensive income shown as two statements, statement of changes in capital funds, statement of cash flows and the notes.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of trading securities, available-for-sale financial assets and all derivative contracts.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the BPI Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the financial statements therefore fairly present the financial position and results of the BPI Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 28.

31.2 Changes in accounting policy and disclosures

(a) Amendments adopted by the BPI Group

The following amendments have been adopted by the BPI Group effective January 1, 2017:
- Amendments to PAS 12, Recognition of Deferred Tax Assets for Unrealized Losses
- Amendments to PAS 7, Disclosure Initiative
- Amendment to PFRS 12 - Clarification on the scope of the standard

The adoption of the above amendments did not have a material impact on the financial statements of the BPI Group.

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

The following new accounting standards and interpretations are not mandatory for December 31, 2017 reporting period and have not been early adopted by the BPI Group:

PFRS 9, Financial instruments (effective for annual periods beginning on or after January 1, 2018)

PFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The BPI Group will apply the new rules retrospectively from January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

The BPI Group has embarked on PFRS 9 Implementation Project (the "PFRS 9 Project") to enable the BPI Group to transition to PFRS 9. The PFRS 9 project is a collaborative undertaking primarily driven by the Parent Bank and participated in by various committees and working groups across the BPI Group.

Classification and measurement of financial assets

Investments in debt instruments

Under PFRS 9, a financial asset should be subsequently measured at amortized cost if both of the following conditions are met:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset should be subsequently measured at fair value through other comprehensive income (FVOCI) if both of the following conditions are met:
- the financial asset is held within a business model whose objective is achieved by both holding financial assets in order to collect contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

If the financial asset is measured at FVOCI, all movements in the fair value should be taken through OCI, except for the recognition of impairment gains or losses, interest revenue in line with the effective interest method and foreign exchange gains and losses, which are recognized in profit or loss.

If the financial asset does not pass the business model assessment and SPPI criteria, or the fair value option is applied, it is measured at fair value through profit or loss (FVTPL). This is the residual measurement category.

Investments in equity instruments

Under PFRS 9, investments in equity instruments are always measured at fair value. Equity instruments that are held for trading are required to be classified at FVTPL, with dividend income recognized in profit or loss.

For all other equities within the scope of PFRS 9, the standard allows entities to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss (except for equities that give an investor significant influence over an investee according to PAS 28, which can only be accounted for under PFRS 9 if they are measured at FVTPL). Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of an investment, in which case they are recognized in OCI. There is no recycling of amounts from OCI to profit or loss – for example, on sale of an equity investment – nor are there any impairment requirements. The entity however, can transfer the cumulative gain or loss within equity.

The initial results of the impact assessment done by the PFRS 9 Project team of the BPI Group on the classification and measurement of financial assets follow:

- Majority of the investments in debt instruments that are currently classified as available-for-sale (AFS) will satisfy the conditions for classification as at FVOCI, hence, there will be no change on the accounting for these investments.
- The BPI Group expects that held-to-maturity (HTM) securities will largely remain at amortized cost. Likewise, the BPI Group has initially assessed that previously classified as AFS will satisfy the conditions for classification as at amortized cost. Hence, management will go back to the assets' initial recognition and measure them as if it had always been measured at amortized cost under PFRS 9.
- Existing trading equity and debt securities will likely remain at FVTPL.
- Most of the AFS equity securities will likely be measured still at FVOCI following the irrevocable election available under PFRS 9.
- Financial assets classified as loans and receivables under PAS 39 will remain at amortized cost under PFRS 9.

Classification and measurement of financial liabilities

PFRS 9 will have no impact on the BPI Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the BPI Group does not have any such liabilities. The de-recognition rules have been transferred from PAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under PAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, loan commitments and certain financial guarantee contracts.

Based on the initial assessments performed to date, the BPI Group expects that the ECL model will have a significant impact on the impairment provisioning for loans and advances.

Hedge accounting

The new hedge accounting rules under PFRS 9 will align the accounting for hedging instruments more closely with the entity's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The new hedge accounting rules will not have a significant impact on the BPI Group as there are no formal hedge accounting relationships as of December 31, 2017.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the BPI Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

PFRS 15, Revenue from contracts with customers (effective for annual periods beginning on or after January 1, 2018)

PFRS 15 will replace PAS 18, 'Revenue' which covers contracts for goods and services and PAS 11, 'Construction contracts' which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognized: (1) identify contracts with customers, (2) identify the separate performance obligation, (3) determine the transaction price of the contract, (4) allocate the transaction price to each of the separate performance obligations, and (5) recognize the revenue as each performance obligation is satisfied.

The adoption of PFRS 15 will not have a material impact on the financial statements of the BPI Group.

PFRS 16, Leases (effective for annual periods beginning on or after January 1, 2019)

PFRS 16 will replace the current guidance in *PAS 17, Leases.* PFRS 16 which will become effective on January 1, 2019 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. PFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An optional exemption exists for short-term and low-value leases.

The adoption of PFRS 16 will likely affect the accounting of certain assets currently held by the BPI Group under operating lease arrangements.

Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after January 1, 2019)

It has been clarified previously that PAS 12, not PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The adoption of the above interpretation will not have a material impact on the financial statements of the BPI Group

Likewise, the following amendments are not mandatory for December 31, 2017 reporting period and have not been early adopted by the BPI Group:

- Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to PFRS 9, Prepayment Features with Negative Compensation
- Amendments to PFRS 15 - Clarifications to PFRS 15
- Amendments to PFRS 4 - Applying PFRS 9, Financial Instruments, with PFRS 4, Insurance Contracts
- Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions

The adoption of the above amendments are not expected to have a material impact on the financial statements of the BPI Group.

31.3 Consolidation

The subsidiaries financial statements are prepared for the same reporting year as the consolidated financial statements. These includes the financial statements of the Parent Bank and the subsidiaries enumerated below:

Subsidiaries	Country of incorporation	Principal activities	% of ownership 2017	2016
BPI Family Savings Bank, Inc.	Philippines	Banking	**100**	100
BPI Capital Corporation	Philippines	Investment house	**100**	100
BPI Direct BanKO, Inc., A Savings Bank (formerly BPI Direct Savings Bank, Inc.)	Philippines	Banking	**100**	100
BPI Asset Management and Trust Corporation	Philippines	Trust	**100**	100
BPI International Finance Limited	Hong Kong	Financing	**100**	100
BPI Europe Plc.	England and Wales	Banking (deposit)	**100**	100
BPI Securities Corp.	Philippines	Securities dealer	**100**	100
BPI Payments Holdings Inc. (formerly BPI Card Finance Corp.)	Philippines	Financing	**100**	100
Filinvest Algo Financial Corp.	Philippines	Financing	**100**	100
BPI Investment Management, Inc.	Philippines	Investment management	**100**	100
Santiago Land Dev. Corp.	Philippines	Land holding	**100**	100
BPI Operations Management Corp.	Philippines	Operations management	**100**	100
BPI Computer Systems Corp.	Philippines	Business systems service	**100**	100
BPI Forex Corp.	Philippines	Foreign exchange	**100**	100
BPI Express Remittance Corp. USA	USA	Remittance	**100**	100
BPI Remittance Centre HK (Ltd)	Hong Kong	Remittance	**100**	100
Green Enterprises S. R. L. in Liquidation	Italy	Remittance	**100**	100
First Far - East Development Corporation	Philippines	Real estate	**100**	100
FEB Stock Brokers, Inc.	Philippines	Securities dealer	**100**	100
BPI Express Remittance Spain S.A	Spain	Remittance	**100**	100
FEB Speed International	Philippines	Remittance	**100**	100
AF Holdings & Management Corp.	Philippines	Financial management consultancy	**100**	100
Ayala Plans, Inc.	Philippines	Pre-need	**98.67**	98.67
FGU Insurance Corporation	Philippines	Non-life insurance	**94.62**	94.62
BPI Century Tokyo Lease and Finance Corporation	Philippines	Leasing	**51**	51
BPI Century Tokyo Rental Corporation	Philippines	Rental	**51**	51
CityTrust Securities Corporation	Philippines	Securities dealer	**51**	51
BPI/MS Insurance Corporation	Philippines	Non-life insurance	**50.85**	50.85

On March 29, 2017 and August 30, 2016, the Parent Bank made an additional capital infusion to BPI Payments Holdings Inc. amounting to P103 million and P290 million, respectively.

On September 20, 2016, the Bank acquired an additional 60% of the issued shares of BPI Globe BanKO, Inc. for P29 million. Prior to the purchase, the carrying amount of the existing non-controlling interest was P10 million. The BPI Group recognized a decrease in non-controlling interests of P10 million and a decrease in equity attributable to owners of the Parent Bank of P19 million. The effect on the equity attributable to the owners of the Bank for the year ended December 31, 2016 is summarized as follows:

	(In Millions of Pesos)
Consideration paid to non-controlling interests	(29)
Carrying amount of non-controlling interests acquired	10
Difference in consideration paid recognized in equity	(19)

On October 6, 2016, BPI Asset Management and Trust Corporation, with an initial paid-in capital of P600 million, was incorporated with the SEC as a wholly-owned subsidiary of the Parent Bank. The primary business purpose of BPI Asset Management and Trust Corporation is to carry and engage in the business of trust, other fiduciary activities and investment management activities.

On December 29, 2016, the merger of BPI Direct Savings Bank, Inc. and BPI Globe BanKO, Inc. was approved by the SEC with BPI Direct Savings Bank, Inc. as the surviving entity. The surviving company's corporate name was changed to BPI Direct BanKO, Inc., A Savings Bank as a result of the merger transaction.

(a) Subsidiaries

Subsidiaries are all entities over which the BPI Group has control. The BPI Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The BPI Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the BPI Group's voting rights relative to the size and dispersion of holdings of other shareholders give the BPI Group the power to govern the financial and operating policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the BPI Group. They are de-consolidated from the date that control ceases.

The BPI Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the BPI Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the BPI Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the BPI Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is not accounted for within equity.

The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the BPI Group's share of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the BPI Group, except for the pre-need subsidiary which follows the provisions of the PNUCA as allowed by the SEC.

When the BPI Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the BPI Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(b) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Interests in the equity of subsidiaries not attributable to the Parent Bank are reported in consolidated equity as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the statement of income as net income (loss) attributable to non-controlling interests.

(c) Associates

Associates are all entities over which the BPI Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates in the consolidated financial statements are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The BPI Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

If the ownership interest in an associate is reduced but significant influence is retained, a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The BPI Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in reserves is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the BPI Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the BPI Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The BPI Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the BPI Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit (loss) of an associate' in profit or loss.

Unrealized gains on transactions between the BPI Group and its associates are eliminated to the extent of the BPI Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the BPI Group.

31.4 Investments in subsidiaries and associates

Investments in subsidiaries and associates in the Parent Bank's separate financial statements are accounted for using the cost method in accordance with PAS 27. Under this method, income from investment is recognized in profit or loss only to the extent that the investor receives distributions from accumulated profits of the investee arising after the acquisition date. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as reduction of the cost of the investment.

The Parent Bank recognizes a dividend from a subsidiary or associate in profit or loss in its separate financial statements when its right to receive the dividend is established.

The Parent Bank determines at each reporting date whether there is any indicator of impairment that the investment in the subsidiary or associate is impaired. If this is the case, the Parent Bank calculates the amount of impairment as the difference between the recoverable amount and carrying value and the difference is recognized in profit or loss.

Investments in subsidiaries and associates are derecognized upon disposal or when no future economic benefits are expected to be derived from the subsidiaries and associates at which time the cost and the related accumulated impairment loss are removed in the statement of condition. Any gains and losses on disposal is determined by comparing the proceeds with the carrying amount of the investment and recognized in profit or loss.

31.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief executive officer who allocates resources to, and assesses the performance of the operating segments of the BPI Group.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated upon consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with PFRS 8, the BPI Group has the following main banking business segments: consumer banking, corporate banking and investment banking. Its insurance business is assessed separately from these banking business segments (Note 3).

31.6 Cash and cash equivalents

Cash and cash equivalents consist of Cash and other cash items, Due from BSP, Due from other banks, and Interbank loans receivable and securities purchased under agreements to resell with maturities of less than three months from the date of acquisition and that are subject to insignificant risk of changes in value.

31.7 Repurchase and reverse repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks and customers and included in the statement of condition under "Interbank loans receivable and securities purchased under agreements to resell". Securities lent to counterparties are also retained in the financial statements.

31.8 Financial assets

31.8.1 Classification

The BPI Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity securities and available-for-sale securities. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets held for trading (other than derivatives) are shown as "Trading securities" in the statement of condition.

Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the BPI Group's key management personnel. The BPI Group has no financial assets that are specifically designated at fair value through profit or loss.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments: (i) that are not quoted in an active market, (ii) with no intention of being traded, and (iii) that are not designated as available-for-sale. Significant accounts falling under this category include loans and advances, cash and other cash items, due from BSP and other banks, interbank loans receivable and securities purchased under agreements to resell and accounts receivable included under other resources.

(c) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the BPI Group's management has the positive intention and ability to hold to maturity.

(d) Available-for-sale securities

Available-for-sale securities are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

31.8.2 Recognition and measurement

(a) Initial recognition and measurement

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity securities and available-for-sale securities are recognized on trade date, the date on which the BPI Group commits to purchase or sell the asset. Loans and receivables are recognized upon origination when cash is advanced to the borrowers or when the right to receive payment is established. Financial assets not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value; and transaction costs are recognized in profit or loss.

(b) Subsequent measurement

Available-for-sale securities and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity securities are subsequently carried at amortized cost. Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of condition. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the statement of income (as “Trading gain/loss on securities”) in the year in which they arise. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired at which time the cumulative fair value adjustments previously recognized in other comprehensive income should be recognized in profit or loss. However, interest is calculated on these securities using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in profit or loss. Dividends on equity instruments are recognized in profit or loss when the BPI Group’s right to receive payment is established.

31.8.3 Reclassification

The BPI Group may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the BPI Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the BPI Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Reclassification and sale of held-to-maturity securities other than an insignificant amount, would taint the entire portfolio and result in reclassification to available-for-sale category, except on sales and reclassifications that:

- are so close to maturity that changes in market interests rates would not significantly affect fair value;
- occur after the entity has collected substantially all of the asset’s original principal; or
- are attributable to an isolated, non-recurring event that could not have been reasonably expected.

31.8.4 Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the BPI Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

31.9 Impairment of financial assets

(*a*) *Assets carried at amortized cost*

The BPI Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the BPI Group uses to determine that there is objective evidence of an impairment loss include:
- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The BPI Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the BPI Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in profit or loss.

For purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the BPI Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the BPI Group and historical loss experience for assets with credit risk characteristics similar to those in the BPI Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of loss has been determined.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Subsequent recoveries of amounts previously written-off are credited to impairment loss in the statement of income.

(b) Assets classified as available-for-sale

The BPI Group assesses at each reporting date whether there is an objective evidence that a security classified as available-for-sale is impaired. For debt securities, the BPI Group uses the criteria mentioned in (a) above. For an equity security classified as available-for-sale, a significant or prolonged decline in the fair value below cost is considered in determining whether the securities are impaired. Generally, the BPI Group treats 'significant' as 20% or more and 'prolonged' as greater than six months. The cumulative loss (difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognized in profit or loss) is removed from other comprehensive income and recognized in profit or loss when the asset is determined to be impaired. If in a subsequent period, the fair value of a debt instrument previously impaired increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. Reversal of impairment losses recognized previously on equity instruments is made directly to other comprehensive income.

(c) Renegotiated loans

Loans that are either subject to individual or collective impairment assessment and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

31.10 Financial liabilities

31.10.1 Classification

The BPI Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortized cost.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the BPI Group as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the statement of income and are reported as "Trading gains/losses". The BPI Group has no financial liabilities that are designated at fair value through profit loss.

(b) Other liabilities measured at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost. Financial liabilities measured at amortized cost include deposits from customers and banks, bills payable, amounts due to BSP and other banks, manager's checks and demand drafts outstanding, subordinated notes and other financial liabilities under deferred credits and other liabilities.

31.10.2 Recognition and measurement

(a) Initial recognition and measurement

Financial liabilities not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial liabilities carried at fair value through profit or loss are initially recognized at fair value; and transaction costs are recognized as expense in profit or loss.

(b) Subsequent measurement

Financial liabilities at fair value through profit or loss are subsequently carried at fair value. Other liabilities are measured at amortized cost using the effective interest method.

31.10.3 Derecognition

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished (i.e. when the obligation is discharged or is cancelled or has expired). Collateral (shares and bonds) furnished by the BPI Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognized because the BPI Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

31.11 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

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

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

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

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The BPI Group considers relevant and observable market prices in its valuations where possible. The BPI Group has no assets or liabilities classified under Level 3 as at December 31, 2017 and 2016.

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

(a) Financial instruments

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes mainly from Bloomberg.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

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

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

The fair value of OTC derivatives is determined using valuation methods that are commonly accepted in the financial markets, such as present value techniques and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates, with the resulting value discounted back to present value.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

(b) Non-financial assets or liabilities

The BPI Group uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses observable inputs, such as prices, broker quotes and other relevant information generated by market transactions involving identical or comparable assets or group of assets.

- Income approach - A valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions. The fair values of BPI Group's investment properties and foreclosed assets (shown as Assets held for sale) fall under level 2 of the fair value hierarchy. The BPI Group has no non-financial assets or liabilities classified under Level 3 as at December 31, 2017 and 2016.

31.12 Classes of financial instruments

The BPI Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments as follows:

	Categories (as defined by PAS 39)	Classes (as determined by the BPI Group)		
		Main classes	Sub-classes	
Financial assets	Financial assets at fair value through profit or loss	- Trading securities	- Debt securities - Equity securities	
		- Derivative financial assets		
	Loans and receivables	- Cash and other cash items		
		- Loans and advances to banks	- Due from BSP	
			- Due from other banks	
			- Interbank loans receivable and securities purchased under agreements to resell	
		- Loans and advances to customers	- Loans to individuals (retail)	- Real estate mortgages - Auto loans - Credit cards - Others
			- Loans to corporate entities	- Large corporate customers - Small and medium-sized enterprises
		- Others	- Accounts receivables - Sales contracts receivable - Rental deposits - Other accrued interest and fees receivable	
	Held-to-maturity investments	- Investment securities (debt securities)	- Government - Others	
	Available-for-sale financial assets	- Investment securities (debt securities)	- Government - Others	
		- Investment securities (equity securities)	- Listed - Unlisted	
Financial liabilities	Financial liabilities at fair value through profit or loss	- Derivative financial liabilities		
	Financial liabilities at amortized cost	- Deposits from customers	- Demand - Savings - Time	
		- Deposits from banks		
		- Bills payable		
		- Due to BSP and other banks		
		- Manager's check and demand drafts outstanding		
		- Interest payable		
		- Unsecured subordinated debt		
		- Other liabilities	- Accounts payable	
			- Outstanding acceptances	
			- Dividend payable	
Off-balance sheet financial instruments	Loan commitments			
	Guarantees, acceptances and other financial facilities			

31.13 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of condition when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

As at December 31, 2017 and 2016, there are no financial assets and liabilities that have been offset.

31.14 Derivative financial instruments

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

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. The assessment of whether an embedded derivative is required to be separated from the host contract is done when the BPI Group first becomes a party to the contract. Reassessment of embedded derivative is only done when there are changes in the contract that significantly modify the contractual cash flows. The embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

The BPI Group's derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that do not qualify for hedge accounting are recognized immediately in the statement of income under "Trading gain/loss on securities".

31.15 Bank premises, furniture, fixtures and equipment

Land and buildings comprise mainly of branches and offices. All bank premises, furniture, fixtures and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of an asset which comprises its purchase price, import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the BPI Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Land is not depreciated. Depreciation for buildings and furniture and equipment is calculated using the straight-line method to allocate cost or residual values over the estimated useful lives of the assets, as follows:

Building	25-50 years
Furniture and equipment	3-5 years
Equipment for lease	2-8 years

Leasehold improvements are depreciated over the shorter of the lease term (ranges from 5 to 10 years) and the useful life of the related improvement (ranges from 5 to 10 years). Major renovations are depreciated over the remaining useful life of the related asset.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. There are no bank premises, furniture, fixtures and equipment that are fully impaired as at December 31, 2017 and 2016.

An item of Bank premises, furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

31.16 Investment properties

Properties that are held either to earn rental income or for capital appreciation or both, and that are not significantly occupied by the BPI Group are classified as investment properties. Transfers to, and from, investment property are made when, and only when, there is a change in use, evidenced by:

(a) Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
(b) Commencement of development with a view of sale, for a transfer from investment property to real properties held-for-sale and development;
(c) End of owner occupation, for a transfer from owner-occupied property to investment property; or
(d) Commencement of an operating lease to another party, for a transfer from real properties held-for-sale and development to investment property.

Transfers to and from investment property do not result in gain or loss.

Investment properties comprise land and building. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation on investment property is determined using the same policy as applied to Bank premises, furniture, fixtures, and equipment. Impairment test is conducted when there is an indication that the carrying amount of the asset may not be recovered. An impairment loss is recognized for the amount by which the property's carrying amount exceeds its recoverable amount, which is the higher of the property's fair value less costs to sell and value in use.

An item of investment property is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gains and losses arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

31.17 Foreclosed assets

Assets foreclosed shown as Assets held for sale in the statement of condition are accounted for at the lower of cost and fair value less cost to sell similar to the principles of PFRS 5. The cost of assets foreclosed includes the carrying amount of the related loan. Impairment loss is recognized for any subsequent write-down of the asset to fair value less cost to sell.

Foreclosed assets not classified as Assets held for sale are accounted for in any of the following classification using the measurement basis appropriate to the asset as follows:

(a) Investment property is accounted for using the cost model under PAS 40;

(b) Bank-occupied property is accounted for using the cost model under PAS 16; and

(c) Financial assets are classified as available-for-sale.

31.18 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the BPI Group's share in the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included under Other resources in the statement of condition. Goodwill on acquisitions of associates is included in Investments in subsidiaries and associates. Separately recognized goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary/associate include carrying amount of goodwill relating to the subsidiary/associate sold.

Goodwill is an indefinite-lived intangible asset and hence not subject to amortization.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each cash-generating unit is represented by each primary reporting segment.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relationships have finite useful lives of ten years and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationship. Contractual customer relationships are included under Other resources in the statement of condition.

(c) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis over the expected useful lives (three to five years). Computer software is included under Other resources in the statement of condition.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the BPI Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense when incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

31.19 Impairment of non-financial assets

Assets that have indefinite useful lives - for example, goodwill or intangible assets not ready for use - are not subject to amortization and are tested annually for impairment and more frequently if there are indicators of impairment. Assets that have definite useful lives are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

31.20 Borrowings and borrowing costs

The BPI Group's borrowings consist mainly of bills payable. Borrowings are recognized initially at fair value, being their issue proceeds, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred. The BPI Group has no qualifying asset as at December 31, 2017 and 2016.

31.21 Interest income and expense

Interest income and expense are recognized in profit or loss for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the BPI Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

31.22 Fees and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party (i.e. the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses) are recognized on completion of underlying transactions. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Asset management fees related to investment funds are recognized ratably over the period in which the service is provided.

31.23 Dividend income

Dividend income is recognized in profit or loss when the BPI Group's right to receive payment is established.

31.24 Credit card income

Credit card income is recognized upon receipt from merchants of charges arising from credit card transactions. These are computed based on rates agreed with merchants and are deducted from the payments to establishments.

31.25 Foreign currency translation

(a) Functional and presentation currency

Items in the financial statements of each entity in the BPI Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Philippine Peso, which is the Parent Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated at exchange rates as at the date of initial recognition. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value is determined.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss recognized under "Trading gain (loss)" in the statement of income. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale, are included in Accumulated other comprehensive income (loss) in the capital funds.

(c) Foreign subsidiaries

The results and financial position of BPI's foreign subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities are translated at the closing rate at reporting date;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component (Translation adjustments) of Accumulated other comprehensive income (loss) in the capital funds. When a foreign operation is sold, such exchange differences are recognized in profit or loss as part of the gain or loss on sale.

31.26 Accrued expenses and other liabilities

Accrued expenses and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the BPI Group is established.

31.27 Provisions for legal or contractual obligations

Provisions are recognized when all of the following conditions are met: (i) the BPI Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item is included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

31.28 Income taxes

(a) Current income tax

Income tax payable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense for the year except to the extent that current tax is related to items (for example, current tax on available-for-sale investments) that are charged or credited in other comprehensive income or directly to capital funds.

The BPI Group has substantial income from its investment in government securities subject to final withholding tax. Such income is presented at its gross amount and the final tax paid or withheld is included in Provision for income tax - Current.

(b) Deferred income tax

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. Deferred income tax liabilities are recognized in full for all taxable temporary differences except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

The BPI Group reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, and associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, and associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the BPI Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the BPI Group is unable to control the reversal of the temporary difference for associates except when there is an agreement in place that gives the BPI Group the ability to control the reversal of the temporary difference.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

31.29 Employee benefits

(a) Short-term benefits

The BPI Group recognizes a liability net of amount already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by to its employees include salaries and wages, social security contributions, short-term compensated absences and bonuses, and non-monetary benefits.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(b) Defined benefit retirement plan

The BPI Group has a defined benefit plan that shares risks among entities within the group. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of condition in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in profit or loss.

For individual financial reporting purposes, the unified plan assets are allocated among the BPI Group entities based on the level of the defined benefit obligation attributable to each entity to arrive at the net liability or asset that should be recognized in the individual financial statements.

(c) Defined contribution retirement plan

The BPI Group also maintains a defined contribution plan that covers certain full-time employees. Under its defined contribution plan, the Group pays fixed contributions based on the employees' monthly salaries. The Group, however, is covered under RA No. 7641, otherwise known as The Philippine Retirement Pay Law, which provides for its qualified employees a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641. Accordingly, the Group accounts for its retirement obligation under the higher of the defined benefit obligation relating to the minimum guarantee and the obligation arising from the defined contribution plan.

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The BPI Group and Parent Bank determine the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) then, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest and other expenses related to the defined benefit plan are recognized in the statement of income.

The defined contribution liability is measured at the fair value of the defined contribution assets upon which the defined contribution benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the defined contribution benefits.

Actuarial gains and losses arising from the remeasurements of the net defined contribution liability are recognized immediately in the other comprehensive income.

(d) Share-based compensation

The BPI Group engages in equity-settled share-based payment transactions in respect of services received from certain employees.

The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of employee services received in respect of the shares or share options granted is recognized in profit or loss (with a corresponding increase in reserve in capital funds) over the period that the services are received, which is the vesting period.

The fair value of the options granted is determined using option pricing models which take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors.

When the stock options are exercised, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (par value) and share premium for the excess of exercise price over par value.

(e) Profit sharing and bonus plans

The BPI Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Parent Bank's shareholders after certain adjustments. The BPI Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

31.30 Capital funds

Share capital, comprising common shares, is classified as equity.

Share premium includes any premiums or consideration received in excess of par value on the issuance of share capital.

Incremental costs directly attributable to the issue of new shares or options are shown in capital funds as a deduction from the proceeds, net of tax.

31.31 Earnings per share (EPS)

Basic EPS is calculated by dividing income applicable to common shares by the weighted average number of common shares outstanding during the year with retroactive adjustments for stock dividends. In case of a rights issue, an adjustment factor is being considered for the weighted average number of shares outstanding for all periods before the rights issue. Diluted EPS is computed in the same manner as basic EPS, however, net income attributable to common shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

31.32 Dividends on common shares

Dividends on common shares are recognized as a liability in the BPI Group's financial statements in the period in which the dividends are approved by the Board of Directors.

31.33 Fiduciary activities

The BPI Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the BPI Group (Note 26).

31.34 Leases

(a) BPI Group is the lessee

(i) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to “Occupancy and equipment-related expenses” in the statement of income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

(ii) Finance lease

Leases of assets, where the BPI Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(*b*) *BPI Group is the lessor*

(i) Operating lease

Properties (land and building) leased out under operating leases are included in “Investment properties” in the statement of condition. Rental income under operating leases is recognized in profit or loss on a straight-line basis over the period of the lease.

(ii) Finance lease

When assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income.

Lease income under finance lease is recognized over the term of the lease using the net investment method before tax, which reflects a constant periodic rate of return.

31.35 Insurance and pre-need operations

(a) Non-life insurance

The more significant accounting policies observed by the non-life insurance subsidiaries follow: (a) gross premiums written from short-term insurance contracts are recognized at the inception date of the risks underwritten and are earned over the period of cover in accordance with the incidence of risk using the 24th method; (b) acquisition costs are deferred and charged to expense in proportion to the premium revenue recognized; reinsurance commissions are deferred and deducted from the applicable deferred acquisition costs, subject to the same amortization method as the related acquisition costs; (c) a liability adequacy test is performed which compares the subsidiaries' reported insurance contract liabilities against current best estimates of all contractual future cash flows and claims handling, and policy administration expenses as well as investment income backing up such liabilities, with any deficiency immediately charged to profit or loss; (d) amounts recoverable from reinsurers and loss adjustment expenses are classified as assets, with an allowance for estimated uncollectible amounts; and (e) financial assets and liabilities are measured following the classification and valuation provisions of PAS 39.

(b) Pre-need

The more significant provisions of the PNUCA as applied by the pre-need subsidiary follow: (a) premium income from sale of pre-need plans is recognized as earned when collected; (b) costs of contracts issued and other direct costs and expenses are recognized as expense when incurred; (c) pre-need reserves which represent the accrued net liabilities of the subsidiary to its plan holders are actuarially computed based on standards and guidelines set forth by the Insurance Commission; the increase or decrease in the account is charged or credited to other costs of contracts issued in profit or loss; and (d) insurance premium reserves which represent the amount that must be set aside by the subsidiary to pay for premiums for insurance coverage of fully paid plan holders, are actuarially computed based on standards and guidelines set forth by the Insurance Commission.

31.36 Related party relationships and transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

31.37 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where PAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year. There were no changes to the presentation made during the year.

31.38 Subsequent events (or Events after the reporting date)

Post year-end events that provide additional information about the BPI Group's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

Note 32 - Supplementary information required by the Bureau of Internal Revenue

On December 28, 2010, Revenue Regulations (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by PFRS.

Below is the additional information required by RR No. 15-2010 that is relevant to the Parent Bank. This information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements.

(i) Documentary stamp tax

Documentary stamp taxes paid through the Electronic Documentary Stamp Tax System for the year ended December 31, 2017 consist of:

(In Millions of Pesos)	Amount
Deposit and loan documents	4,046
Trade finance documents	296
Mortgage documents	175
Shares of stocks	-
Others	3
	4,520

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2017 consist of:

	Amount		
(In Millions of Pesos)	Paid	Accrued	Total
Income taxes withheld on compensation	1,886	222	**2,108**
Final income taxes withheld on interest on deposits and yield on deposit substitutes	1,539	180	**1,719**
Final income taxes withheld on income payment	619	11	**630**
Creditable income taxes withheld (expanded)	331	38	**369**
Fringe benefit tax	88	32	**120**
VAT withholding tax	45	8	**53**
	4,508	**491**	**4,999**

(iii) All other local and national taxes

All other local and national taxes paid/accrued for the year ended December 31, 2017 consist of:

	Amount		
(In Millions of Pesos)	Paid	Accrued	Total
Gross receipts tax	2,688	282	**2,970**
Real property tax	117	-	**117**
Municipal taxes	159	-	**159**
Others	6	-	**6**
	2,970	**282**	**3,252**

(iv) Tax cases and assessments

As at reporting date, the Parent Bank has pending cases filed in courts and with the tax authorities contesting certain tax assessments and for various claims for tax refund. Management is of the opinion that the ultimate outcome of the said cases will not have a material impact on the financial statements of the Parent Bank.