Bank of the Philippine Islands and Subsidiaries

Unaudited Condensed Consolidated Interim Financial Statements
As at and for the six-month period ended June 30, 2018
(With comparative figures as at December 31, 2017 and for the six-month period ended June 30, 2017)

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Isla Lipana & Co.

Report on Review of Interim Financial Statements

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

Introduction

We have reviewed the accompanying unaudited condensed consolidated interim statement of condition of the Bank of the Philippine Islands and its subsidiaries (the "BPI Group") as at June 30, 2018, and the related unaudited condensed consolidated interim statements of income, statements of comprehensive income, statements of changes in capital funds and statements of cash flows for the six-month periods ended June 30, 2018 and 2017, and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these unaudited condensed consolidated interim financial statements in accordance with Philippine Accounting Standard 34, 'Interim Financial Reporting' as issued by the Financial Reporting Standards Council (FRSC). Our responsibility is to express a conclusion on these unaudited condensed consolidated interim financial statements based on our review.

Scope of Review

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

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Conclusion

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

Isla Lipana & Co.

Zaldy D. Aguirre
Partner
CPA Cert No. 105660
P.T.R. No. 0024447, issued on January 10, 2018, Makati City
SEC A.N. (individual) as general auditors 1176-AR-2, Category A; effective until June 20, 2021
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
TIN 221-755-698
BIR A.N. 08-000745-077-2018, issued on January 29, 2018; effective until January 28, 2021
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
August 20, 2018

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CONDITION
JUNE 30, 2018
(With Comparative Audited Consolidated December 31, 2017 Figures)
(In Millions of Pesos)

	Notes	**2018**	2017
RESOURCES			
CASH AND OTHER CASH ITEMS	3	**31,009**	35,132
DUE FROM BANGKO SENTRAL NG PILIPINAS	3	**230,369**	255,948
DUE FROM OTHER BANKS	3	**8,219**	14,406
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	3	**31,228**	18,586
DERIVATIVE ASSETS	4	**4,787**	4,981
TRADING SECURITIES	5	**18,558**	5,332
INVESTMENT SECURITIES, net	6	**284,498**	300,785
LOANS AND ADVANCES, net	7	**1,222,631**	1,202,338
ASSETS HELD FOR SALE, net		**3,508**	3,578
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	8	**15,085**	15,056
INVESTMENT PROPERTIES, net		**148**	135
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net		**5,990**	6,386
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS		**16,785**	17,406
DEFERRED INCOME TAX ASSETS, net		**8,366**	8,091
OTHER RESOURCES, net		**19,778**	15,745
Total resources		**1,900,959**	1,903,905

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CONDITION
JUNE 30, 2018
(With Comparative Audited Consolidated December 31, 2017 Figures)
(In Millions of Pesos)

	Notes	**2018**	2017
LIABILITIES AND CAPITAL FUNDS			
DEPOSIT LIABILITIES	9	**1,534,976**	1,562,200
DERIVATIVE LIABILITIES	4	**4,729**	4,788
BILLS PAYABLE	10	**51,743**	83,517
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		**1,526**	1,218
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		**6,426**	7,022
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		**7,851**	7,117
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS		**14,451**	14,513
DEFERRED CREDITS AND OTHER LIABILITIES		**36,675**	39,979
Total liabilities		**1,658,377**	1,720,354
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI			
Share capital	11	**44,945**	39,336
Share premium		**74,066**	29,771
Reserves	11	**206**	254
Surplus		**122,975**	116,415
Accumulated other comprehensive loss		**(2,498)**	(5,088)
		239,694	180,688
NON-CONTROLLING INTEREST		**2,888**	2,863
Total capital funds		**242,582**	183,551
Total liabilities and capital funds		**1,900,959**	1,903,905

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2018 AND 2017
(In Millions of Pesos, Except Per Share Amounts)

	Notes	**2018**	2017
INTEREST INCOME			
On loans and advances		**33,028**	27,268
On investment securities		**4,596**	4,534
On deposits with BSP and other banks		**553**	1,148
On trading securities		**135**	116
Gross receipts tax		**(1,225)**	(1,053)
		37,087	32,013
INTEREST EXPENSE			
On deposits		**10,004**	7,922
On bills payable and other borrowings		**871**	575
		10,875	8,497
NET INTEREST INCOME		**26,212**	23,516
IMPAIRMENT LOSSES	7	**1,913**	2,461
NET INTEREST AFTER IMPAIRMENT LOSSES		**24,299**	21,055
OTHER INCOME			
Fees and commissions		**4,028**	4,165
Income from foreign exchange trading		**1,143**	1,102
Trading gain on securities		**586**	952
Income attributable to insurance operations		**602**	753
Other operating income		**5,375**	5,555
Gross receipts tax		**(726)**	(703)
		11,008	11,824
OTHER EXPENSES			
Compensation and fringe benefits		**7,595**	6809
Occupancy and equipment-related expenses		**6,608**	5,331
Other operating expenses		**7,017**	6,113
		21,220	18,253
INCOME BEFORE INCOME TAX		**14,087**	14,626
INCOME TAX EXPENSE	12		
Current		**3,243**	3,358
Deferred		**(276)**	(579)
		2,967	2,779
NET INCOME FOR THE PERIOD		**11,120**	11,847
Attributable to:			
Equity holders of BPI		**11,026**	11,692
Non-controlling interest		**94**	155
		11,120	11,847
Earnings per share for net income attributable to the equity holders of BPI during the period:			
Basic and diluted		**2.45**	2.97

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2018 AND 2017
(In Millions of Pesos)

	Note	**2018**	2017
NET INCOME FOR THE PERIOD		**11,120**	11,847
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value reserve on FVOCI securities, net of tax effect	12	**(790)**	486
Fair value reserve on investments of insurance subsidiaries, net of tax effect	12	**(370)**	183
Share in other comprehensive loss of an associate		**(1,009)**	(55)
Currency translation differences		**175**	110
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit plan, net of tax effect	12	**(5)**	(8)
Share in other comprehensive gain (loss) of associates		**286**	(620)
Total other comprehensive (loss) income, net of tax effect		**(1,713)**	96
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**9,407**	11,943
Attributable to:			
Equity holders of BPI		**9,370**	11,763
Non-controlling interest		**37**	180
		9,407	11,943

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2018 AND 2017
(In Millions of Pesos)

	Attributable to equity holders of BPI (Note 11)							
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total	Non-controlling interest	Total equity
Balance, January 1, 2017	**39,308**	**29,591**	**2,711**	**98,602**	**(5,078)**	**165,134**	**2,550**	**167,684**
Comprehensive income								
Net income for the period	-	-	-	11,692	-	11,692	155	11,847
Other comprehensive income for the period	-	-	-	-	71	71	25	96
Total comprehensive income for the period	-	-	-	11,692	71	11,763	180	11,943
Transactions with owners								
Executive stock plan amortization	15	92	23	-	-	130	-	130
Cash dividends	-	-	-	(3,545)	-	(3,545)	-	(3,545)
Total transactions with owners	**15**	**92**	**23**	**(3,545)**	**-**	**(3,415)**	**-**	**(3,415)**
Balance, June 30, 2017	**39,323**	**29,683**	**2,734**	**106,749**	**(5,007)**	**173,482**	**2,730**	**176,212**
Balance, January 1, 2018	**39,336**	**29,771**	**254**	**116,415**	**(5,088)**	**180,688**	**2,863**	**183,551**
Impact of PFRS 9 adoption (Note 18)	-	-	-	(413)	4,246	3,833	(12)	3,821
Restated balance, January 1, 2018	**39,336**	**29,771**	**254**	**116,002**	**(842)**	**184,521**	**2,851**	**187,372**
Comprehensive income								
Net income for the period	-	-	-	11,026	-	11,026	94	11,120
Other comprehensive loss for the period	-	-	-	-	(1,656)	(1,656)	(57)	(1,713)
Total comprehensive income (loss) for the period	**-**	**-**	**-**	**11,026**	**(1,656)**	**9,370**	**37**	**9,407**
Transactions with owners								
Proceeds from stock rights offering (Note 11)	5,587	44,363	-	-	-	49,950	-	49,950
Executive stock plan amortization	22	(68)	(48)	-	-	(94)	-	(94)
Cash dividends	-	-	-	(4,052)	-	(4,052)	-	(4,052)
Others	-	-	-	(1)	-	(1)	-	(1)
Total transactions with owners	**5,609**	**44,295**	**(48)**	**(4,053)**	**-**	**45,803**	**-**	**45,803**
Balance, June 30, 2018	**44,945**	**74,066**	**206**	**122,975**	**(2,498)**	**239,694**	**2,888**	**242,582**

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2018 AND 2017
(In Millions of Pesos)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**14,087**	14,626
Adjustments for:		
Impairment losses	**1,913**	2,461
Depreciation and amortization	**2,291**	2,117
Share in net income of associates	**(320)**	(397)
Dividend income	**(37)**	(38)
Share based compensation	**(49)**	24
Interest income	**(38,312)**	(33,065)
Interest received	**37,164**	33,305
Interest expense	**10,875**	8,497
Interest paid	**(10,205)**	(8,078)
(Increase) decrease in:		
Interbank loans and receivable and securities purchased under agreement to resell	**80**	734
Trading securities	**(13,221)**	312
Loans and advances	**(21,307)**	(19,092)
Assets held for sale	**207**	(72)
Assets attributable to insurance operations	**205**	556
Other resources	**(4,558)**	(1,205)
(Decrease) increase in:		
Deposit liabilities	**(27,224)**	1,164
Due to Bangko Sentral ng Pilipinas and other banks	**308**	(148)
Manager's checks and demand drafts outstanding	**(596)**	(516)
Accrued taxes, interest and other expenses	**64**	16
Liabilities attributable to insurance operations	**(62)**	(977)
Derivative financial instruments	**134**	70
Deferred credits and other liabilities	**(3,827)**	1,448
Net cash (used in) from operations	**(52,390)**	1,742
Income taxes paid	**(3,241)**	(3,342)
Net cash used in operating activities	**(55,631)**	(1,600)

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2018 AND 2017
(In Millions of Pesos)

	Note	**2018**	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Investment securities		**19,529**	18,671
Bank premises, furniture, fixtures and equipment		**(1,871)**	(1,604)
Investment in subsidiaries and associates, net		**(218)**	187
Assets attributable to insurance operations		**381**	(75)
Investment property, net		**(15)**	-
Dividends received		**37**	38
Net cash inflow from investing activities		**17,843**	17,217
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends		**(3,545)**	(3,543)
Issuance of shares via exercise of stock options		**49,904**	107
Decrease in bills payable		**(31,774)**	(19,464)
Net cash used in financing activities		**14,585**	(22,900)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(23,203)**	(7,283)
CASH AND CASH EQUIVALENTS	3		
Beginning of period		**322,129**	310,747
End of period		**298,926**	303,464

(The notes on pages 1 to 16 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2018
(With comparative figures as at December 31, 2017 and for the six-month period ended June 30, 2017)
(In Millions of Pesos, unless otherwise stated)

Note 1 - General information

Bank of the Philippine Islands (“BPI” or the “Parent Bank”) is a domestic commercial bank with an expanded banking license and has its registered office address, which is also its principal place of business, at BPI Building, Ayala Avenue corner Paseo de Roxas, Makati City. BPI and its subsidiaries (collectively referred to as the “BPI Group”) offer a whole breadth of financial services that include corporate banking, consumer banking, investment banking, asset management, corporate finance, securities distribution, and insurance services. At June 30, 2018, the BPI Group has 17,674 employees (June 2017 - 15,625 employees) and operates 988 branches and 3,141 ATMs and CAMs (June 2017 - 828 branches and 3,079 ATMs and CAMs) to support its delivery of services. The BPI Group also serves its customers through alternative electronic banking channels such as telephone, mobile phone and the internet. The Parent Bank was registered with the Securities and Exchange Commission (SEC) on January 4, 1943. This license was extended for another 50 years on January 4, 1993.

The Parent Bank is considered a public company under Rule 3.1 of Implementing Rules and Regulations of the Securities Regulation Code, which, among others, defines a public company as any corporation with a class of equity securities listed on an exchange, or with assets of at least P50 million and having 200 or more shareholders, each of which holds at least 100 shares of its equity securities. Likewise, BPI is a listed entity with its shares traded in the Philippine Stock Exchange (PSE) since October 12, 1971. As at June 30, 2018, the Parent Bank has 11,649 common shareholders (June 2017 - 11,514).

The condensed consolidated interim financial statements have been approved by the Board of Directors of the Parent Bank on August 20, 2018.

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

Note 2 - Segment information

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

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

The BPI Group’s main operating business segments follow:

- Consumer banking - this segment serves the individual and retail markets. It covers deposit taking and servicing, consumer lending such as home mortgages, auto loans and credit card finance as well as the remittance business. Likewise, this segment includes the entire transaction processing and service delivery infrastructure consisting of the BPI 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 CEO assesses the performance of its insurance business as a separate segment from its banking and allied financial undertakings.

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

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

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

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

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

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

The segment assets and liabilities as at June 30, 2018 and December 31, 2017 and results of operations of the reportable segments of the BPI Group as at and for the six-month periods ended June 30, 2018 and 2017 follow:

	June 30, 2018			
	Consumer banking	**Corporate banking**	**Investment banking**	**Total per management reporting**
	(In Millions of Pesos)			
Net interest income	15,122	6,182	7,120	**28,424**
Impairment charge	1,360	544	10	**1,914**
Net interest income after impairment charge	13,762	5,638	7,110	**26,510**
Fees and commission income	3,101	627	588	**4,316**
Other income	3,006	1,013	2,445	**6,464**
Gross receipts tax	(379)	(60)	(165)	**(604)**
Other income, net	5,728	1,580	2,868	**10,176**
Compensation and fringe benefits	5,969	1,255	506	**7,730**
Occupancy and equipment - related expenses	3,405	956	107	**4,468**
Other operating expenses	6,133	1,522	718	**8,373**
Total operating expenses	15,507	3,733	1,331	**20,571**
Operating profit	3,983	3,485	8,647	**16,115**
Share in net income of associates				**389**
Income tax expense				**2,967**
Total resources				
June 30, 2018	478,270	1,013,971	378,288	**1,870,529**
December 31, 2017	476,749	1,007,058	389,085	**1,872,892**
Total liabilities				
June 30, 2018	1,081,651	503,068	52,667	**1,637,386**
December 31, 2017	1,063,069	550,367	85,946	**1,699,382**

	June 30, 2017			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Net interest income	16,686	2,398	6,196	**25,280**
Impairment charge	1,904	562	(3)	**2,463**
Net interest income after impairment charge	14,782	1,836	6,199	**22,817**
Fees and commission income	2,914	612	776	**4,302**
Other income	3,368	793	3,280	**7,441**
Gross receipts tax	(391)	(49)	(222)	**(662)**
Other income, net	5,891	1,356	3,834	**11,081**
Compensation and fringe benefits	4,521	647	539	**5,707**
Occupancy and equipment - related expenses	2,029	580	40	**2,649**
Other operating expenses	6,599	828	803	**8,230**
Total operating expenses	13,149	2,055	1,382	**16,586**
Operating profit	7,524	1,137	8,651	**17,312**
Share in net income of associates				**397**
Income tax expense				**2,779**
June 30, 2017				
Total resources	516,624	796,990	371,320	**1,684,934**
Total liabilities	1,461,264	15,663	44,591	**1,521,518**

Reconciliation of segment results to consolidated results of operations:

	June 30, 2018		
	Total per management reporting	**Consolidation adjustments/ Others**	**Total per consolidated financial statements**
	(In Millions of Pesos)		
Net interest income	28,424	(2,212)	**26,212**
Impairment charge	1,914	(1)	**1,913**
Net interest income after impairment charge	26,510	(2,211)	**24,299**
Fees and commission income	4,316	(288)	**4,028**
Other income	6,464	1,242	**7,706**
Gross receipts tax	(604)	(122)	**(726)**
Other income, net	10,176	832	**11,008**
Compensation and fringe benefits	7,730	(135)	**7,595**
Occupancy and equipment - related expenses	4,468	2,140	**6,608**
Other operating expenses	8,373	(1,356)	**7,017**
Total operating expenses	20,571	649	**21,220**
Operating profit	16,115	(2,028)	**14,087**
Share in net income of associates (included in Other income)	389		**389**
Income tax expense	2,967		**2,967**
Total resources			
June 30, 2018	1,870,529	30,430	**1,900,959**
December 31, 2017	1,872,892	31,013	**1,903,905**
Total liabilities			
June 30, 2018	1,637,386	20,991	**1,658,377**
December 31, 2017	1,699,382	20,972	**1,720,354**

	June 30, 2017		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	25,280	(1,764)	23,516
Impairment charge	2,463	(2)	2,461
Net interest income after impairment charge	22,817	(1,762)	21,055
Fees and commission income	4,302	(137)	4,165
Other income	7,441	921	8,362
Gross receipts tax	(662)	(41)	(703)
Other income, net	11,081	743	11,824
Compensation and fringe benefits	5,707	1,102	6,809
Occupancy and equipment - related expenses	2,649	2,682	5,331
Other operating expenses	8,230	(2,117)	6,113
Total operating expenses	16,586	1,667	18,253
Operating profit	17,312	(2,686)	14,626
Share in net income of associates (included in Other income)	397		397
Income tax expense	2,779		2,779
June 30, 2017			
Total resources	1,684,934	31,054	1,715,988
Total liabilities	1,521,518	18,258	1,539,776

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

Note 3 - Cash and cash equivalents

Cash and cash equivalents as at June 30, 2018 and December 31, 2017 consist of:

	2018	2017
	(In Millions of Pesos)	
Cash and other cash items	**31,009**	35,132
Due from BSP	**230,369**	255,948
Due from other banks	**8,219**	14,406
Interbank loans receivable and securities purchased under agreements to resell	**29,050**	16,327
Cash and cash equivalents attributable to insurance operations	**279**	316
	298,926	322,129

Due from BSP decreased by P25,579 million due to the change in the BSP regulatory reserve requirement against the Bank’s deposit and deposit substitute liabilities from 20% to 18%. The excess funds were reallocated to Reverse Repurchase Agreements (RRP). In addition, substantial portion of the net proceeds from the stock rights offering was temporarily invested in RRPs and term deposit facilities (Note 11) causing the increase in the interbank loans receivable and securities purchased under agreements to resell. Other cash and cash equivalent accounts remain comparable with December 31, 2017 balances.

For cash flow statement purposes, cash and cash equivalents at June 30 consist of:

	2018	2017
	(In Millions of Pesos)	
Cash and other cash items	**31,009**	29,401
Due from BSP	**230,369**	258,841
Due from other banks	**8,219**	9,078
Interbank loans receivable and securities purchased under agreements to resell	**29,050**	5,876
Cash and cash equivalents attributable to insurance operations	**279**	268
	298,926	303,464

Note 4 - Derivatives

Derivatives held by the BPI Group for non-hedging purposes mainly consist of foreign exchange forwards, foreign exchange swaps, interest rate swaps, cross-currency swaps and credit-linked notes. Balances of derivatives remain comparable with December 31, 2017 balances.

Note 5 - Trading securities

The account at June 30, 2018 and December 31, 2017 consists of:

	2018	2017
	(In Millions of Pesos)	
Debt securities		
Government securities	**16,583**	4,943
Commercial papers of private companies	**1,692**	29
	18,275	4,972
Accrued interest receivable	**37**	30
	18,312	5,002
Equity securities - listed	**246**	330
	18,558	5,332

The increase in trading securities is mainly due to higher volume of government securities acquired during the period.

Note 6 - Investment securities, net

The account at June 30, 2018 and December 31, 2017 consists of:

	2018	2017
	(In Millions of Pesos)	
Financial assets at amortized cost	**272,938**	277,472
Financial assets at fair value through other comprehensive income (FVOCI)		
Debt securities	**9,618**	19,218
Equity securities, net	**1,942**	4,095
	284,498	300,785

The decrease in investment securities of P16,287 million is mainly attributable to the sale and maturities of debt securities during the period.

Note 7 - Loans and advances

Loans and advances increased by P20,293 million at June 30, 2018 mainly due to higher loan demand in both corporate and retail loan portfolios. The increase is partially funded by the net proceeds from stock rights offering (Note 11).

The movements in allowance for impairment losses on loans and advances as at June 30, 2018 and December 31, 2017 are summarized below:

	2018	2017
	(In Millions of Pesos)	
Beginning balance	**20,663**	18,676
Provision for impairment losses	**2,017**	4,317
Transfers	**4**	(561)
Write off/Disposal	**(407)**	(1,657)
Unwind of discount	**(15)**	(112)
Ending balance	**22,262**	20,663

Note 8 - Bank premises, furniture, fixtures and equipment

Movements of the account for the six-month periods ended June 30, 2018 are summarized as follows:

	2018				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2018	3,023	9,589	15,277	5,505	**33,394**
Additions	-	705	618	2,071	**3,394**
Disposals/transfers	(12)	(1,934)	(299)	(2,221)	**(4,466)**
June 30, 2018	**3,011**	**8,360**	**15,596**	**5,355**	**32,322**
Accumulated depreciation					
January 1, 2018	-	4,848	11,748	1,742	**18,338**
Depreciation	-	231	852	623	**1,706**
Amortization	-	140	-	-	**140**
Disposals/transfers	-	(1,587)	(436)	(924)	**(2,947)**
June 30, 2018	**-**	**3,632**	**12,164**	**1,441**	**17,237**
Net book value, June 30, 2018	**3,011**	**4,728**	**3,432**	**3,914**	**15,085**

	December 31, 2017				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost	3,023	9,589	15,277	5,505	33,394
Accumulated depreciation	-	4,848	11,748	1,742	18,338
Net book value	3,023	4,741	3,529	3,763	15,056

Note 9 - Deposit liabilities

The decrease in total deposits of P27,224 million is due to settlement of high cost time deposits amounting to P69,900 million. The paydown of time deposits was partially funded by the proceeds from stock rights offering (Note 11). The decrease was tempered by the increase in demand and savings deposits of P13,252 million and P29,424 million, respectively.

Note 10 - Bills payable

Bills payable refer to borrowings from local and foreign banks to support the BPI Group's loan growth brought about by robust client volumes. The decrease in bills payable by P31,774 million at June 30, 2018 is primarily due to settlement of short-term interbank borrowings which were not subsequently rolled over or renewed upon maturities. This is part of the BPI Group's strategy to manage cost of funds by resorting to low-cost deposit products.

Note 11 - Capital funds

Details of authorized capital stock of the Parent Bank at June 30, 2018 and December 31, 2017 follow:

	2018	2017
	(In Millions of Pesos Except Par Value Per Share)	
Authorized capital (at P10 par value per share)		
Common shares	**70,000**	49,000
Preferred A shares	**600**	600
	70,600	49,600

On January 17, 2018, the Board of Directors approved to increase the authorized capital stock by 2.1 billion shares to 7.0 billion shares.

The outstanding common shares as at June 30, 2018 and December 31, 2017 are 4,502,448,426 and 3,939,412,661, respectively.

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

The proceeds from the stock rights offering amounted to P49.5 billion. Out of this amount, a total of P5.4 billion was used to grow the loan portfolio while about P10.4 billion financed the paydown of time deposits. The remaining balance is temporarily invested in reverse repurchase agreements and term deposit facilities amounting to P19.5 billion and P14.2 billion, respectively. These amounts will be used to expand the loan book and fund the Bank's delivery infrastructure projects within the twelve-month period.

There are no preferred shares issued as at June 30, 2018 and December 31, 2017.

Surplus reserves at June 30, 2018 and December 31, 2017 consist of:

	2018	2017
	(In Millions of Pesos)	
Reserve for trust business	**90**	90
Reserve for self-insurance	**34**	34
Executive stock option plan amortization	**82**	130
	206	254

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

Details of cash dividends declared by the Parent Bank follow:

	Amount of Dividends	
Date Declared	Per Share	Amounts in millions of Pesos
June 15, 2017	0.90	3,545
December 15, 2017	0.90	3,546
June 21, 2018	0.90	4,052

Note 12 - Income taxes

Income tax expense is calculated based on the estimated full-year effective tax rate.

Deferred income taxes effect attributable to components of other comprehensive income for the six-month periods ended June 30, 2018 and 2017 are as follows:

	2018	2017
	(In Millions of Pesos)	
Net change in fair value reserve on available-for-sale securities	**16**	1
Fair value reserve on investments of insurance subsidiaries	**44**	16
Actuarial losses on defined benefit plan	**-**	230
	60	247

Note 13 - Commitments and contingencies

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

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

Note 14 - Related party transactions

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

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

Details of directors, officers, stockholders, and their related interests (DOSRI) loans as at June 30, 2018 and December 31, 2017 follow:

	2018	2017
	(In Millions of Pesos)	
Outstanding DOSRI loans	**12,644**	4,376
	In percentage (%)	
% to total outstanding loans and advances	**1.02**	0.36
% to total outstanding DOSRI loans		
Unsecured DOSRI loans	**14.25**	29.63
Past due DOSRI loans	**0.01**	0.03
Non-performing DOSRI loans	**-**	0.02

At June 30, 2018 and December 31, 2017, the BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans.

Note 15 - Critical accounting estimates and judgments

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

In preparing the condensed consolidated interim financial statements, the significant accounting estimates and judgments made by management in applying the BPI Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2017, except with respect to accounts and transactions affected by the adoption of PFRS 9 as disclosed in Note 18.

Note 16 - Fair value measurements of financial instruments

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

a. Fair value hierarchy

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

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

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

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The BPI Group considers relevant and observable market prices in its valuations where possible. The BPI Group has no assets or liabilities classified under Level 3 as at and for the period ended June 30, 2018 and December 31, 2017.

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

The following table presents the BPI Group's assets and liabilities that are measured at fair value at June 30, 2018:

	Level 1	Level 2	Level 3	**Total**
		(In Millions of Pesos)		
Financial assets				
Derivative assets	-	4,787	-	**4,787**
Trading securities				
- Debt securities	16,969	1,343	-	**18,312**
- Equity securities	246	-	-	**246**
FVOCI				
- Debt securities	9,517	101	-	**9,618**
- Equity securities	1,327	935	-	**2,262**
Financial liabilities				
Derivative liabilities	-	4,729	-	**4,729**

The following table presents the BPI Group's assets and liabilities that are measured at fair value at December 31, 2017:

	Level 1	Level 2	Level 3	Total
		(In Millions of Pesos)		
Financial assets				
Derivative assets	-	4,981	-	4,981
Trading securities				
- Debt securities	4,973	29	-	5,002
- Equity securities	330	-	-	330
FVOCI				
- Debt securities	16,981	2,237	-	19,218
- Equity securities	3,755	661	-	4,416
Financial liabilities				
Derivative liabilities	-	4,788	-	4,788

There were no transfers between Level 1 and Level 2 during the periods ended June 30, 2018 and December 31, 2017.

b. Valuation techniques used to derive Level 2 fair values

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

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

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

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

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

The BPI Group also holds financial instruments that are not measured at fair value in the statement of condition at June 30, 2018 as follows:

	Carrying amount	Fair value
Financial assets		
Investment securities at amortized cost	272,938	247,226
Loans and advances, net	1,222,631	1,223,271
Financial liabilities		
Deposit liabilities	1,534,976	1,518,480

Note 17 - Basis of preparation

These unaudited condensed consolidated interim financial statements as at and for the six-month period ended June 30, 2018 have been prepared in accordance with PAS 34, “Interim Financial Reporting”. These unaudited condensed consolidated interim financial statements do not include all the notes normally included in an annual financial report. Accordingly, these unaudited condensed consolidated interim financial statements are to be read in conjunction with the annual audited consolidated financial statements of the BPI Group for the year ended December 31, 2017, which have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

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

A number of new and amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make prospective adjustments as a result of adopting the following standards:

- Amendments to PFRS 9, Financial instruments
- Amendments to PFRS 15, Revenue from contracts with customers

The impact of the adoption of PFRS 9 and the new accounting policies are disclosed in Note 18. The adoption of PFRS 15 did not have any significant impact on the BPI Group’s accounting policies.

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

The following new accounting standards and interpretations are not mandatory for June 30, 2018 reporting period and have not been early adopted by the BPI Group:

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

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 June 30, 2018 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.

Note 18 - Changes in accounting policies

This note presents the impact of the adoption of PFRS 9 on the BPI Group’s financial statements and the new accounting policies that have been applied from January 1, 2018, where they are different to those applied in prior periods.

The BPI Group has adopted PFRS 9 with a date of transition of January 1, 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The BPI Group did not early adopt any provisions of PFRS 9 in previous periods.

As permitted by the transitional provisions of PFRS 9, the BPI Group elected not to restate comparative figures. Resulting adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening balance of surplus and other reserves as of January 1, 2018.

The adoption of PFRS 9 has resulted in changes mainly in the BPI Group’s accounting policies for recognition, classification and measurement of financial assets and impairment of financial assets. PFRS 9 also significantly amends other standards dealing with financial instruments such as PFRS 7, Financial Instruments: Disclosures.

Set out below are disclosures relating to the impact of the adoption of PFRS 9 on the BPI Group.

(a) Classification and measurement of financial assets

The measurement category and the carrying amount of financial assets in accordance with PAS 39 and PFRS 9 at January 1, 2018 are as follows:

	PAS 39		PFRS 9	
	December 31, 2017		January 1, 2018	
Financial instruments	Measurement category	Carrying amount	Measurement category	Carrying amount
Cash and other cash items	Amortized cost	35,132	Amortized cost	35,132
Due from Bangko Sentral ng Pilipinas	Amortized cost	255,948	Amortized cost	255,948
Due from other banks	Amortized cost	14,406	Amortized cost	14,406
Interbank loans receivable and securities purchased under agreements to resell	Amortized cost	18,586	Amortized cost	18,586
Derivative assets	Fair value through profit or loss (FVTPL)	4,981	FVTPL	4,981
Trading securities	FVTPL	5,332	FVTPL	7,567
Investment securities	FVOCI (Available for sale)	23,313	FVOCI	29,150
	Amortized cost [Held to maturity (HTM)]	277,472	Amortized cost	273,386
Loans and advances, net	Amortized cost	1,202,338	Amortized cost	1,202,338
Other financial assets	Amortized cost	1,170	Amortized cost	1,170

(b) Reconciliation of statement of condition balances from PAS 39 to PFRS 9

On January 1, 2018, the BPI Group performed a detailed analysis of its business models for managing financial assets including their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with PAS 39 to their new measurement categories upon transition to PFRS 9 on January 1, 2018. Financial statement line items that were not affected by the changes have not been included.

	FVTPL - Trading securities	**Investment securities at FVOCI (Available-for-sale in 2017)**	**Investment securities at amortized cost (HTM in 2017)**
Closing balance, December 31, 2017 - PAS 39	**5,332**	**23,313**	**277,472**
Reclassifications from:			
Available-for-sale to FVTPL	2,235	(2,235)	-
Available-for-sale to amortized cost	-	(4,565)	4,611
HTM to FVOCI	-	12,637	(11,996)
HTM to amortized cost*	-	-	3,299
	2,235	5,837	(4,086)
Opening balance, January 1, 2018 - PFRS 9	**7,567**	**29,150**	**273,386**

**The securities were originally classified as available-for-sale before they were reclassified to HTM.*

For cash flow statement purposes, the reclassification adjustments as detailed above are treated as non-cash transactions.

(c) Impairment allowance balance from PAS 39 to PFRS 9

The BPI Group shifted from incurred loss model to expected credit loss model in the determination of impairment provisions for financial assets not carried at fair value through profit or loss upon adoption of PFRS 9. The PFRS 9 impairment model, however, did not cause any material adjustments on the impairment provisions recorded as of December 31, 2017.

(d) The impact on the relevant equity items as at January 1, 2018 is as follows:

	Surplus	**Accumulated other comprehensive loss**
Closing balances, December 31, 2017 - PAS 39	116,415	(5,088)
Reclassifications from:		
Available-for-sale to FVTPL	(12)	12
Available-for-sale to amortized cost	-	46
HTM to FVOCI	-	641
HTM to amortized cost*	(246)	3,545
Tax effect of discount/premium amortization	(155)	-
Opening balances, January 1, 2018 - PFRS 9	**116,002**	**(844)**

**The securities were originally classified as available-for-sale before they were reclassified to HTM.*