

Let's make the best happen

2014 Annual Report



BPI

ABOUT BPI

Founded in 1851, Bank of the Philippine Islands is the first bank in the Philippines and in the Southeast Asian region. BPI is a universal bank and together with its subsidiaries and affiliates, it offers a wide range of financial products and solutions that serve both retail and corporate clients.

BPI's services include consumer banking and lending, asset management, insurance, securities brokerage and distribution, foreign exchange, leasing, and corporate and investment banking.

The bank has a network of 825 branches in the Philippines, Hong Kong and Europe, and 2,575 ATMs and Cash Deposit Machines (CDMs).

The establishment of BPI, originally known as El Banco Espanol Filipino de Isabel II, ushered in the start of the country's banking and finance industry. It performed many functions, from providing credit to the National Treasury to printing and issuing currency, making it in effect the country's first central bank. The bank proudly carries on this tradition, financing many private and public sector initiatives and enterprises in support of economic growth and nation-building.

BPI is acknowledged as a leading provider of financial services in the Philippines.

THE BPI CREDO

We believe our first responsibility is to our **Clients**. If we understand and address our clients' financial needs, we will be trusted with their most important financial transactions, and we will build lasting relationships. We do well when our clients do well.

We believe in our responsibility to our **People**. We seek to hire the best people for each job, provide them with the means to perform at a high level and reward them fairly. We value integrity, professionalism and loyalty. We promote a culture of mutual respect, meritocracy, performance and teamwork. We strive to be the employer of choice among Philippine financial institutions.

We believe in our responsibility to our **Shareholders**. We treat capital as a most valuable asset, and seek to generate superior returns while being prudent in risk-taking, spending and investment.

We believe in our responsibility to our **Country**. Our prosperity is greatly dependent on the well being of our nation. We aim to be inclusive and responsible in nation building. Through BPI Foundation, we are committed to the welfare and sustainability of the communities we serve.

About the Cover

At BPI, the year 2014 was one of deepening relationships with clients, truly Making the Best Happen for each and every one of them—from clients who transacted at any one of our channels, borrowers who funded growth amidst a resurging economy, users of transactional banking, to investors who sought to grow their funds.

In this Annual Report, we recount to you not only our financial performance, but also the stories of our clients, men and women, individuals and enterprises, big and small, that complete the BPI story. Indeed, we are dedicated to our clients, and we are proud to be part of their lives and histories.

**'Unibankers remain
focused on one simple
goal: Helping clients
achieve their financial
aspirations.'**

Jaime Augusto Zobel de Ayala

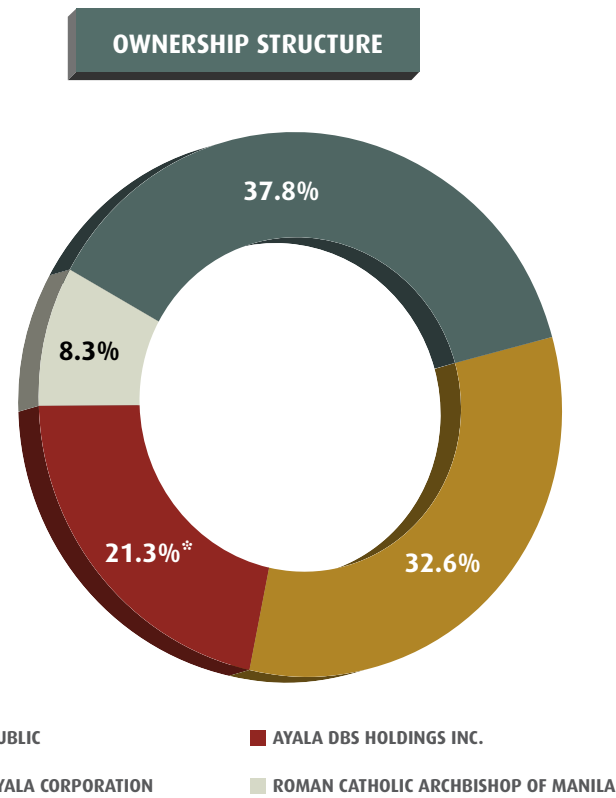
**Bank of the Philippine Islands
2014 Annual Report**

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Shareholders & Owners

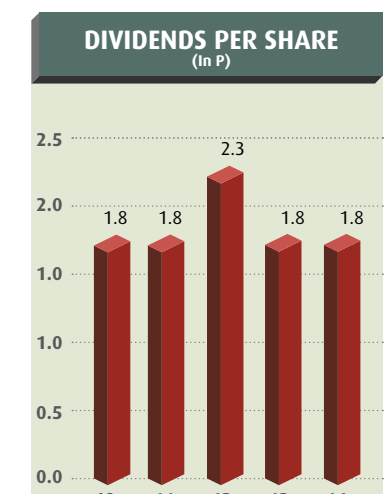
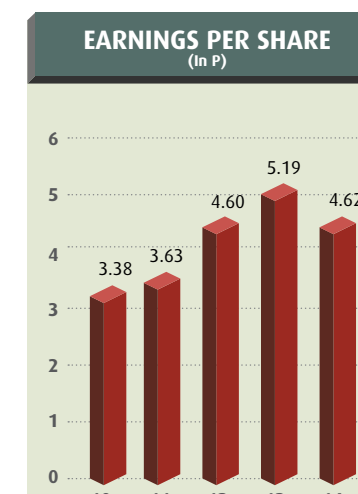
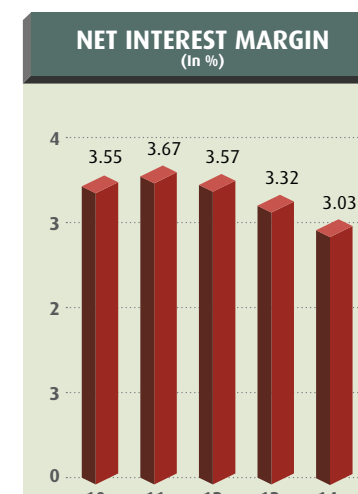
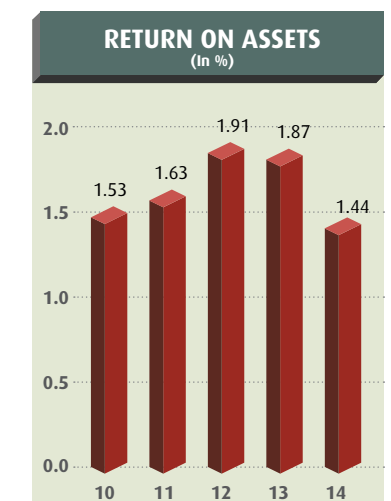
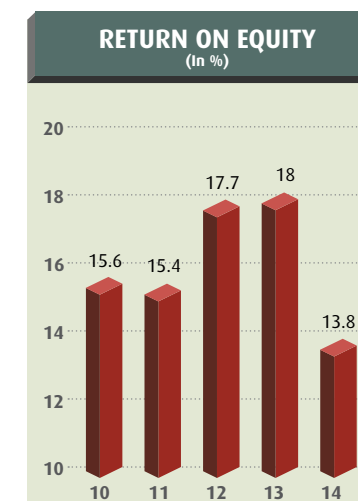
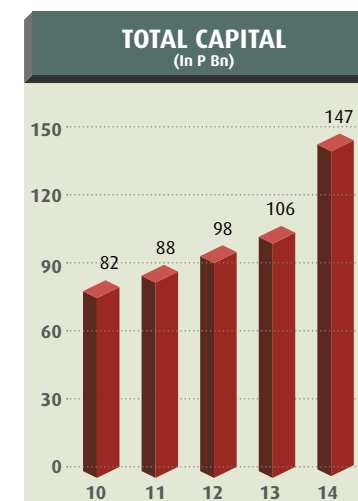
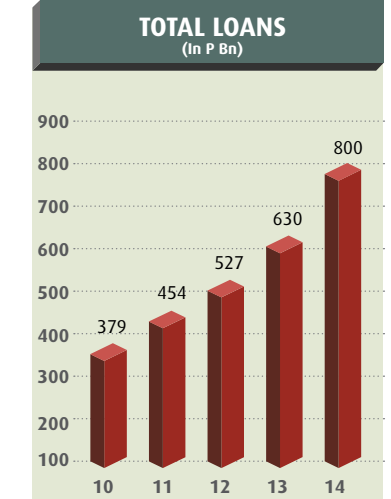
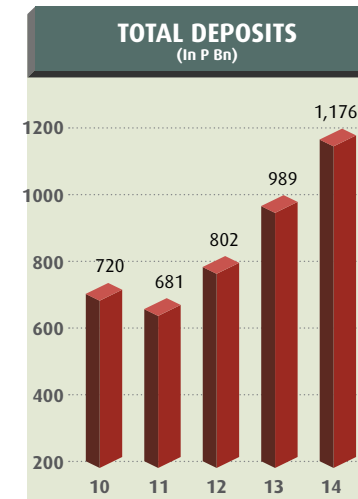
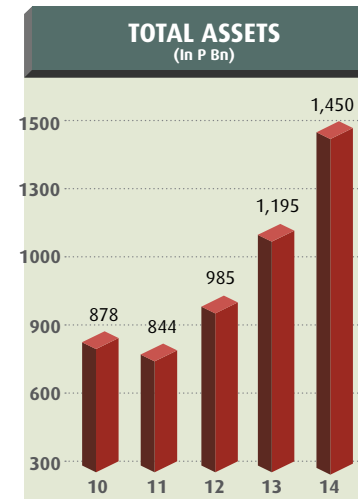
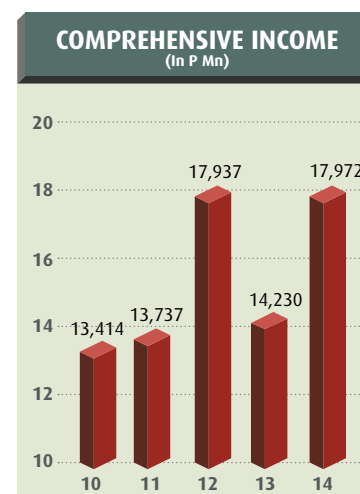
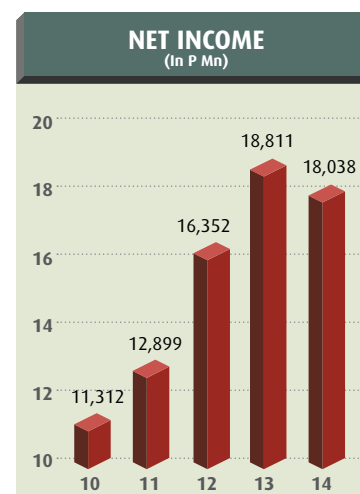
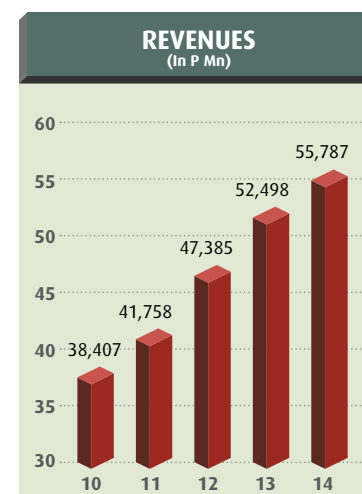
BPI's founding shareholders were primarily charities and endowments associated with the Roman Catholic Church, and its directors consisted of government officials and prominent businesspersons, including Antonio de Ayala, a partner in a predecessor firm of today's Ayala Corporation. In 1969, Ayala Corporation became the bank's largest shareholder.

As of December 31, 2014, Ayala Corporation and its affiliates owned an effective interest of 48.3 percent in BPI. The Roman Catholic Archbishop of Manila owned 8.3 percent; and the Government of Singapore Investment Corporation, 5.6 percent. Public investors held 37.8 percent, well above the required minimum public float of 10 percent.



* Ayala Corporation owns 73.8% of Ayala DBS Holdings, giving it an effective interest of 15.7% in BPI via this vehicle. GIC owns 26.2% of Ayala DBS, and an effective interest in BPI of 5.6%.

Financial Highlights



Financial Highlights

Basel III Consolidated CAR (Implemented January 2014)	14.85%	Loan-to-Deposit Ratio	69%
NPL Ratio (30 days)	0.50%	Float-to-Bought Ratio	69:31
Reserve Cover (30 days)	216%		

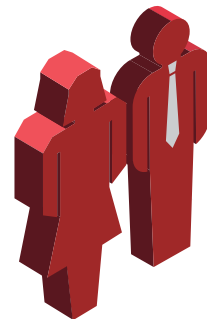
BRANCH, ATM AND CDM NETWORK



Total Number of Branches	825
Domestic	820
Greater Metro Manila	451
Provincial	369
International	5
Hong Kong	1
Europe	4
ATMs and CDMs*	2,575

*Cash deposit machines

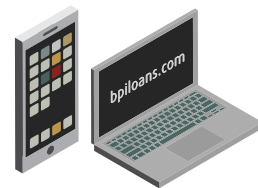
EMPLOYEES



Head Count	14,542
Banking services	14,129
Insurance services	413

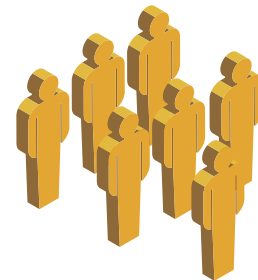
OTHER TRANSACTION CHANNELS

Internet, mobile, contact center, remittance partners



NUMBER OF CLIENTS

7 million



Citations

AWARD-GIVING BODY	AWARD
Alpha Southeast Asia	Best Mortgage Lending Bank Best Bond House Best Equity House Best Cash Management Award Best SME Bank Best Project Financing in SE Asia (Pagbilao Energy's P33.3-B loan)
Asiamoney	Best Local Cash Management Bank
Asia Risk	House of the Year
Corporate Treasurer	Best Transaction Bank
Employers Confederation of the Philippines	Kapatiran sa Industriya Awards Hall of Fame
Euromoney	Best Trade Bank Best Bank for Real Estate Service Overall
Finance Asia	Best Equity Capital Markets House Best Philippine Deal (Ayala Corporation's \$300-M exchangeable bond)
Global Finance	Best Trade Finance Bank
Housing and Urban Dev't Coordinating Council	Most Active Bank Lender for Housing
IMMAP	Effectivity in Sales (www.bpiloans.com)
International Finance Review Asia	Philippine Capital Markets Deal (SSI Group's P7.5-B IPO)
Philippine Insurers and Reinsurers Association	Best in Corporate Social Responsibility
Reader's Digest	Gold Award: Investment Fund Category Gold Trusted Brand Award Most Trusted Brand (Payments)
Social Security System	Best Collecting Commercial Bank Best Paying Thrift Bank
The Asset Triple A	Philippine Deal of the Year (Century Pacific's P3.1-B IPO) Best Small Cap Equity Deal (SSI Group's P7.6-B IPO) Best Cash Management Bank
The Asian Banker	Best Retail Bank Best Trade Finance Bank Best Payments Product in Asia
The Digital Filipino.com Club	Best Website
Trade Finance	Best Trade Finance Service Provider
World Wildlife Fund-Philippines	Corporate Partner of the Year



Eight in 10 transactions are now executed through our electronic channels.



BPI Express Mobile, consistently the most downloaded financial app in both the App Store and Google Play



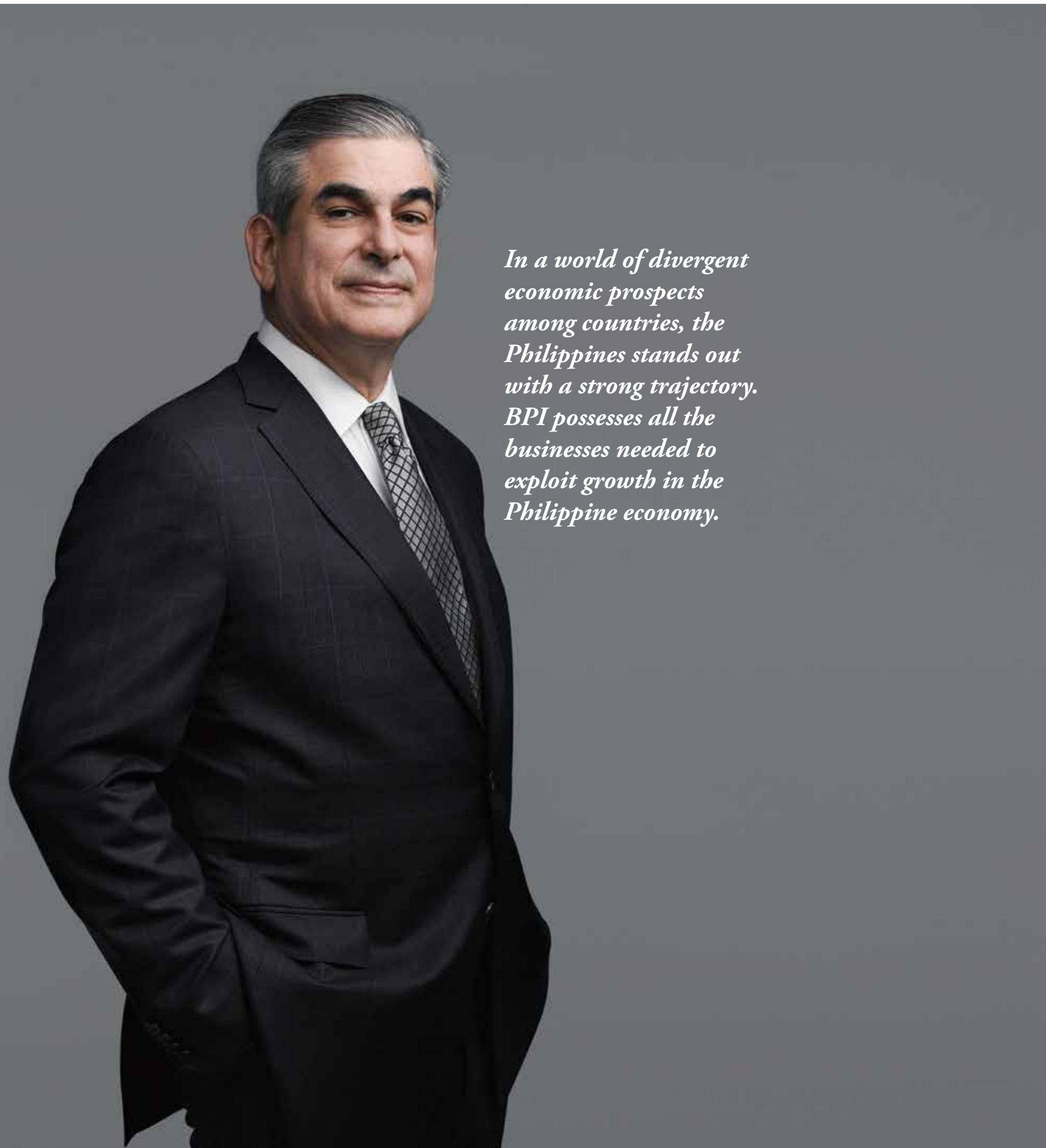
Our market share in home loans and auto loans remains substantial, at 22 and 17 percent, respectively.



BPI-Philamlife Assurance, with significant growth, gaining market share



BPI Securities more than doubled its equity brokerage volume. Research now covers 30+ companies.



In a world of divergent economic prospects among countries, the Philippines stands out with a strong trajectory. BPI possesses all the businesses needed to exploit growth in the Philippine economy.

Message from the Chairman and the President & CEO

HOLDING TRUE TO OUR VALUES

Dear Shareholders:

The Bank of the Philippine Islands celebrated its 163rd anniversary last year. As we cross the threshold into a new year, we are proud of the fact that we remain true to the values that have defined us since our founding in 1851. We are committed to our clients and our team of unibankers remain focused on one simple goal: Helping clients achieve their financial aspirations. More importantly for shareholders, we continue to build on our tradition of strong corporate governance as our way of keeping the foundation of our business strong. We also remain committed to delivering robust financial performance by working hand in hand with a seasoned management team—one that delivers superior profitability while taking prudent risks.

Financial Performance

We have set a series of high benchmarks for quality of earnings, cost efficiency, and profitability. Last year, BPI recorded both net income and total comprehensive income of P18.0 billion, achieving a return on assets of 1.44 percent and a return on equity of 13.75 percent. Our cost-to-income ratio closed the year at 53.70 percent. We are also the only major Philippine bank that pays dividends on a regular basis. For 2014, we received Bangko Sentral approval to pay P7.08 billion in total dividends, an annual payout ratio of 39.2 percent. Our ability to consistently return capital to shareholders, while adhering to regulatory requirements on risk and capitalization, speaks to the strength of our culture of fiduciary prudence.

Our clients entrusted us with record business volumes in 2014. Total assets, loans, and deposits ended the year at all-time highs of P1.4 trillion, P800 billion, and P1.2 trillion, respectively. Loans and deposits grew 27 percent and 19 percent, respectively. Assets managed by our trust and investment teams grew 7.0 percent, ending the year at P619 billion. In our capital markets business, BPI originated and distributed record levels of equities and bonds. As reported by Bloomberg, we ranked No. 1 in equities for the first time, managing more than P25 billion in offerings; in bonds, we placed third, managing more than P41 billion in volume.

The quality of our balance sheet remains strong and our credit ratings are equal to that of the Philippine government, as published by both Moody's and Fitch Ratings. Our non-performing loans increased by far less than the growth of our loan book. As a result, our ratio of NPLs to loans fell to 1.52 percent (90-day). Despite this, we continue to build our loan loss reserves. At the end of last year, our reserve-to-NPL ratio reached 109.3 percent, a new high for BPI. Furthermore, this ratio assigns no value to collateral which, we believe, has substantial intrinsic value. We continue to see opportunities to grow our core loan business while maintaining our strong credit quality, especially as the Philippine economy continues to expand.

We thank you for supporting our highly successful rights issue, which concluded in February 2014. More than 99 percent of our stockholders subscribed to this issue, which raised P25 billion, the largest financial transaction in our company's history. This, combined with our significant earnings power, translated to some of the strongest capital ratios—and most straightforward capital structures—among Philippine banks. Our ratios for CAR and CET1 ended 2014 at 14.8 percent and 14.0 percent, respectively.

Growth and Leadership

We are very excited to reflect on where BPI stands today. In a volatile global economic environment that has increasingly seen countries decouple in economic terms, it has been comforting to see the Philippines enjoy a strong trajectory in domestic demand, driven by private spending and positive business and consumer sentiment. Furthermore, inflation remains benign and comfortably within the Bangko Sentral's target range. As it grows, our economy is also becoming increasingly inclusive. At

Message from the Chairman and the President & CEO

BPI, we have grown our customer base to 7 million; and if we include our microfinance finance efforts at BPI Globe BanKO, it expands to 8 million. We seek to contribute to our national development agenda of inclusive growth as we engage a larger segment of our potential customer base.

We believe that BPI has the products and services needed to take full advantage of the growth in the Philippine economy. We are diversified and have scale across a broad range of deposit, payment, credit, capital markets, bancassurance, and asset management services. We have sophisticated, well developed channels that connect us to our clients. In 2014, we reinforced our leasing business by concluding a strategic partnership with Century Tokyo Leasing one of Japan's most successful asset finance companies. Century Tokyo offers BPI an opportunity to broaden its product offerings through new financial technologies, as well as unique connectivity to Japanese equipment manufacturers. We also announced a partnership with Global Payments, a NYSE-listed company that manages one of the world's largest merchant acquiring networks. By combining our point-of-sales terminals with theirs, our service offerings for BPI card customers will expand significantly.

In December 2014, we took steps to further sharpen the focus of our organization. To complement our legacy product teams, we added new teams charged with the sole purpose of strengthening our dialogue with clients at even deeper levels. This initiative is the essence of One BPI. If we are to continue multiplying the products used by each customer, we must first understand, at a deeper level, their financial objectives. And as our customers' definition of financial success evolves over time, our client and product bankers must likewise adjust and be ready to address these needs. The ability to "cross-sell" products is a common objective among banks. Many fail at this task. To do it well requires a talented, dedicated management team that communicates effectively and works together to do many things right. At BPI, we have already experienced some success at cross-selling, but we want to do much more.

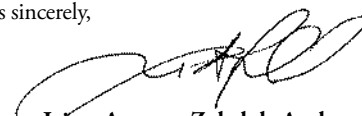
Regulation

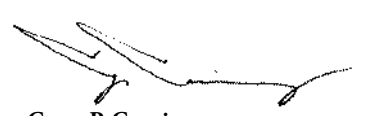
BPI is in the business of building trust. Good governance and compliance are the very bedrock of trust. The year 2014 saw the onset of Basel III capital standards in Philippine banking, and a variety of Bangko Sentral initiatives to stem the risk of imbalances in property prices, promote sound credit practices, and enhance protection for consumers. We have taken a proactive stance in engaging our Bangko Sentral and contributing to policies that improve our banking system and build confidence with our public. Consistent with this stance, we have increased the resources devoted to our Compliance, Risk Management and Internal Audit functions. We believe that these functions at BPI have always set the standard to which many in our industry aspire. The continued protection of the reputation and financial well-being of BPI, its clients, and its shareholders remains one of our paramount objectives.

The BPI Family, Our Future

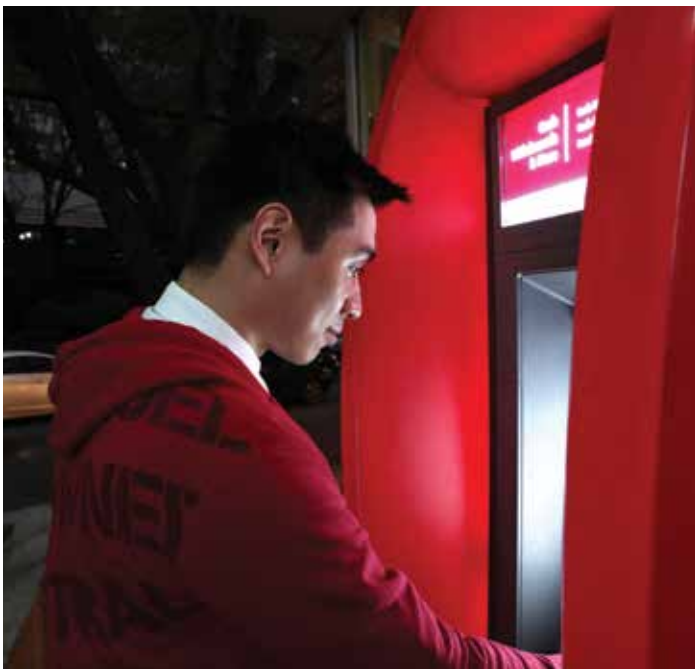
We are both very proud of BPI's accomplishments in 2014, and remain excited by what we see in our collective future. Our firm has embarked on an exciting new chapter in its 163-year history, "Making the Best Happen" for clients in ways we have not done before. Our successes are the result of the hard work, commitment, and deep sense of belonging that is the hallmark of our 14,542 unibankers. We are grateful to our whole team at BPI, both at home and abroad, for their commitment to our goals. We remain grateful, also, to our diverse and experienced board of directors. Their individual and collective wisdom has provided valuable guidance and their regular engagement across a number of committees has kept our governance strong. Finally, we remain grateful to all our stockholders for their engagement and trust as we continue to build for the future.

Yours sincerely,


Jaime Augusto Zobel de Ayala
Chairman


Cezar P. Consing
President & Chief Executive Officer





Our Clients

THE YEAR 2014 was one of deepening relationships with all our clients, truly striving to Make the Best Happen for each one of them.

These are some of their stories.

Irene and Edmund Felix Homeowners

Irene and Edmund Felix saved up for their first home for five months. “Our first night as a married couple was spent in that house,” Edmund says.

An account manager for a logistics company, Edmund says that the two-bedroom affair served them well until the family started to grow. “The children were getting bigger, and so we realized we needed more space where each of my sons could get a room to himself.”

The couple then acquired a lot in a subdivision in Biñan, Laguna, but they had not secured the funds to build the house. They went to a number of banks, in search of an affordable housing loan. “BPI, in fact, was the last bank we visited,” Edmund recalls. It was the first place, however, where the couple found what they were looking for.

“Those who talked to us were really very accommodating. That is in fact one of the things I like about BPI, staff who really seek to engage us,” Edmund says.

“They don’t offer cut-and-dried solutions. The bank formulates a solution just for you, in order to answer the needs of their clients.”

“Irene and I are now open to the idea of having a business in the near future. We believe BPI could help us raise the funds to finance this next phase in our lives.”



Irene and Edmund Felix

With that initial loan, the Felix couple was able to complete their 161 sq m family home for their growing family. They have also taken out another loan with the bank, in order to buy their first family car. “We believe that our good standing as housing loan clients made the car application faster,” says Edmund.

He adds, “I really like banking with BPI because of its auto-debit arrangement. They just deduct my monthly amortization from my savings account. We don’t have to go to a branch every month to make the payments.”

Edmund hopes that the relationship with BPI would bear fruit once more. He says: “Irene and I are now open to having a business in the near future. We believe BPI could help us raise the funds to finance this next phase in our lives.”

Jina Juson Franchise business owner Ystilo Salon

Jina Juson was working a 9-to-5 job in a Makati-based firm, and by all indications seemed set on a career in the corporate world. And then her family started to grow. That was when she realized that her monthly paycheck was not going to be enough anymore.

Raised by a mother who always had her hand in business, Jina took a pivot and embarked on starting a business herself. Her mother used to run a salon, so it wasn’t strange that Jina thought she had a shot in the very same business.

Having chosen her business location, a mall in Alabang, Muntinlupa, Jina now had to find the right salon brand. Ystilo, which owns and operates a chain of salons, was a suitable option. One of its owners was actress-entrepreneur Vina Morales, a person that Jina respected.

Taking a leap of faith, Jina opened the first Ystilo branch in Alabang. Though Ystilo had a strong following, Jina knew she was taking a calculated risk. During the branch’s first years, money was always an issue—Jina had to deal with burgeoning operating costs in a low-sales environment, but she left nothing to chance. She went through the books with a fine-tooth comb, made sure her team always delivered quality service, and ensured that each client enjoyed their time at the salon.

“Since my first loan with BPI, I’ve had several car loans and a housing loan, and I’ve been really happy with the terms offered me. BPI really supports me in achieving my dreams for my family.”



Jina Juson

Jina’s hard work paid off—her salon enjoyed good business, such that Morales asked her if she wanted to open another branch, the first Ystilo in Calamba, Laguna. Jina readily agreed. BPI Family Bank was an important partner to Jina. Its Ka-Negosyo loan, targeted at the needs of sole proprietors, was a unique source of growth capital.

With P5 million in loans, Jina was able to manage the Calamba branch’s finances efficiently, even during its early days, with as yet no customer base to speak of. In just three years, and with a lot of hard work, Jina was able to pay off the loan.

Jina’s journey as a businessperson doesn’t stop there—with the earnings of her salon, she’s been able to put up a restaurant to support the fledgling culinary careers of two of her children. They are, after all, the reason Jina decided to go into business herself.

Grant Lim Proprietor Home Studio

Grant Lim, the man behind Home Studio, wasn't always the guy who catered to homeowners who needed Italian tiles.

A marketing major with an interest in architecture, Grant worked in one of the country's biggest conglomerates. His stint in the corporate world allowed him to analyze customer preferences, read financial reports, and apply strategic thinking. All these would prove useful when he later set up his own business. And a peso term loan with BPI reinforced the power of his ideas.

In the late 1990s, Grant's mother asked his help to renovate a condominium unit. Looking for tiles and fixtures, he couldn't help but be disappointed with what was available in the market. Then he realized, he could start a business by filling in the demand of homeowners and renovators like himself.

First, he set up a 30 sq m store in their Mandaluyong City residence. It wasn't exactly easy—he had no track record to begin with, his space was too small, he hadn't learned the intricacies of importing and dealing with customs agencies, and he only had himself to count on.

Eventually, he found a bigger place for his growing business—a 200 sq m space in the Greenhills shopping district

“I have big dreams, an ambitious vision, and I am just starting. I am sure BPI will be helpful when I will require more financial help in achieving that vision.”



in San Juan, available for P3 million. Grant knew it would not be easy to find such an ideal location in the future, and so he took it. “It was during the Asian crisis, so it seemed like a gamble,” he says. “But the opportunity was there, and so I told myself, *subukan mo lang* [just try it out].”

He turned to BPI to help him acquire the property that would house his dream showroom. Grant had been aspiring to expand his business, and offer more than tiles. He wanted to transform his store into a “home design hub” that offered unique and high quality finishing and furnishing needs. The loan that he got from BPI, Grant affirms, was the “major kick-off” in growing Home Studio.

“At first, we were really small, but when we decided to expand it, BPI was there to help us. BPI has proved to be a great partner—the bank personnel working with me understood my needs and responded accordingly,” he says.

It took two years for Grant to finish the Home Studio showroom, which now stands proudly on Connecticut Street in Greenhills, San Juan with an expanded offering of tiles, mattresses, furniture, fittings and accessories.

Maria Socorro Oca Chairperson GOLD Foundation

Thirty-four kilometers south of Metro Manila, in an unassuming part of Cavite province, is a village developed and built especially for Filipino seafarers and their families.

Built in 1991, Seamen's Village is a 19-hectare medium-cost subdivision with ample grounds and impressive recreational facilities. Located in Dasmariñas, Cavite, the village is a landmark project of AMOSUP, or the Associated Marine Officers' and Seamen's Union of the Philippines, founded in 1960 by Dr. Conrado F. Oca.

The Seamen's Village is designed as a community of 900 houses, some 400 of which have been awarded to members of AMOSUP. It is not surprising that this village, inspired by the ideals of Oca, is now at the center of a landmark study.

The study, to be carried out by the Gregorio Oca Leadership & Development (GOLD) Foundation and the BPI Foundation, will look into the financial needs of overseas Filipino seafarers, who typically earn above-average salaries. The study will generate and make use of information and other inputs from the residents of the village.

“We are an aspirational country, but lack in meaningful support to realize timeless motivations. This study funded by BPI Foundation is a small yet important step in supporting them.”



Apart from mapping out spending habits of seafarers and their families, the study will attempt to build a deep understanding of their aspirations and values. In the process, the study will help seafarers acquire more information and the discipline to preserve and grow their wealth.

“The project will go a long way towards informing and educating seafarers and their families in proper wealth management,” says Maria Socorro Oca, chair of GOLD Foundation and Dr. Oca's daughter.

“GOLD is all about building on the successes of AMOSUP, and by embarking on this endeavor, in partnership with the BPI Foundation, we hope to further equip seafarers and their families with the means to become financially fit and build productive lives.”



“BPI and I have a similar vision of creating an enabling environment for SMEs, encouraging more wealth-creation activities.”

Arturo Yan



“Openness and flexibility are the reasons we keep banking with BPI. This means our partnership with BPI will grow bigger, better, and stronger.”

Robert Trota

Arturo Yan President & Chairman Glacier Refrigerated Services

Helping to fight climate change has become an imperative for many enterprises, but programs specifically designed to reduce their carbon footprint are not too common. Glacier Refrigerated Services has found such a program in BPI's Sustainable Energy Finance.

Glacier Refrigerated Services owns and operates huge-capacity, high-performance cold storage facilities in Metro Manila and in the provinces of Iloilo, Bicol, Davao, Palawan, Pangasinan, and South Cotabato. Its cold chain infrastructure has addressed low-profit margins of primary producers. Food manufacturers, traders, and processors rely on Glacier's competitive services.

Glacier has shifted from a cooling system that used ozone-depleting refrigerants to a newer, environment-friendly, and more efficient system for its cold storage facilities. It installed energy-efficient compressors that prevent power losses, evaporative condensers that optimize current flow and wall insulation to help maintain temperatures. It has also started using Freon 507, a green refrigerant—refrigerants used traditionally by industry, like chlorofluorocarbon and hydrochlorofluorocarbon have been directly linked to the destruction of the earth's ozone layer, which shields the planet from ultraviolet radiation.

Glacier is now expanding this system, initially implemented in its Taguig City facility, to achieve the same results in other locations in the country. It is during

this expansion phase that Glacier turned to BPI, “a bank that has the same lofty goals that we have, remarks Arturo Yan, Glacier President and CEO.”

Glacier tapped BPI's Sustainable Energy Finance program to fund its environment-responsible projects. Glacier is also installing solar panels on its facilities' rooftops, to cut its reliance on electricity from fossil fuels.

Started in 2008, the SEF program is conducted by the bank in partnership with the World Bank's International Finance Corporation. It is focused on supporting projects that promote energy efficiency, renewable energy, and green technology.

For its efforts, Glacier recently received the IFC Sustainable Energy Finance Award.

“The support of BPI has allowed us to reinvent our business model and invest more in green and environment-friendly projects,” he says. “Adopting energy-efficient systems and using renewable energy require more capital at the beginning. BPI understood this, and delivered just-in-time project financing that allowed us to implement our project at the fastest possible time.”

“Glacier aims to become a leading player in the cold chain industry by having the largest capacity by end-2015,” says Yan, who is now training his sight on vertical integration, to include third-party logistics and food processing. “Hopefully, this will improve the market value of products and expand the market reach of producers, manufacturers, and sellers,” he says.

Robert Trota President & CEO Max's Group

It was just after the Second World War when one of the country's most loved brands came into existence—Maximo Gimenez lived in a house near a US military camp in Quezon City, on a street that's now called Scout Tuazon. American soldiers in the area found stimulating conversation and good food in the home of Gimenez, who soon enlisted his niece, Ruby, to prepare her signature chicken dish for his American friends.

“Soon, the American soldiers said, ‘we like it here and we'd like to pay for the food. So they started to pay and it took off from there,” narrates Robert Trota, a grandnephew of Gimenez and president and CEO of the present-day Max's Group.

Seven decades later, the family-run Max's had become a restaurant group, that included Max's Restaurant, Max's Corner Bakery, and the Philippine franchises of Krispy Kreme and Jamba Juice. It was also eyeing a much bigger restaurant chain, the publicly listed Pancake House Group, in order to achieve significant growth.

In July 2014, Max's acquired 89.9 percent of PHG for P3.5 billion, bringing together 14 restaurant brands under one roof. These brands include Pancake House, Yellow Cab, Le Coeur de France, Dencio's, and Teriyaki Boy. The acquisition catapulted Max's to a position of undisputed leadership in the Philippine casual dining space, with over 500 restaurants in the country and about 25 more abroad.

BPI Capital served as Max's exclusive financial advisor in the acquisition, and sole arranger for an acquisition financing.

In December 2014, the Max's Group—the combined entity after the merger—raised another P3.5 billion through the sale of over 197 million common shares, in the process deleveraging the company, and positioning it for sustainable growth. BPI Capital again acted as Max's sole bookrunner, issue manager and lead underwriter.

Together with BPI, “we created a record of sorts—we raised the bar in terms of targeting an acquisition, doing a merger, and carrying out a follow-on offering all in one year. All these are normally done in three years,” says Robert.

“The relationship with the whole team, BPI Capital and BPI Securities [which acted as tender offer agent and buy-side broker], has given us the confidence to do bigger things, together.”

BPI continues to assist Max's in unlocking and enhancing value, capitalizing synergies from the integrated restaurant group.

Trota underscores this vision: “We want to be the Filipino company with the most loved brands by 2025. Our mission statement is, ‘We build loved brands.’ That's how we want our customers to remember us by. We would love to be part of those loved brands, and being a Filipino company, a Filipino brand, makes it even better.”



OUR PRODUCTS & SERVICES

In tandem with our commitment to deepen client relationships, we focus on the excellence of our service. Our Products & Services teams work to design and deliver financial products that address specific top-of-mind needs, and in ways that clients find accessible, convenient, and efficient. In so doing, we also adhere to our mission of financial inclusiveness to an ever growing base of Filipino clients.

Deposits. In 2014, our total deposits reached the trillion mark at P1.2 trillion, an increase of 19 percent from previous year's P989 billion. Both our float and bought deposits increased by 19 percent, to reach P816.1 billion and P360.1 billion, respectively.

Asset Management. We are one of the Philippines' largest asset managers, and offer a wide range of mutual fund, unit trust, and discretionary portfolio services. We have a long track record of managing assets of both institutional, high net worth, and mass affluent investors. We employ highly trained and experienced investment professionals, who follow a rigorous process that delivers superior risk-adjusted returns over a time horizon established by our clients. We employ state-of-the-art technology to construct and risk manage portfolios, provide reports, and engage in planning and distribution.

In 2014, assets under management grew by 7.0 percent to P619 billion, achieving strong market share growth and ranking No. 2 in the industry. We launched two innovations—fund-of-funds and feeder funds—through which retail investors may access international expertise in non-Peso equity and fixed income assets in a convenient, cost-efficient manner.

Retail Lending. Retail loans, at P255.0 billion, constitutes 31.5 percent of net loans. We are one of the Philippines' largest providers of lending products to the retail market. Our retail lending flagship is BPI Family Savings Bank, the Philippines' largest thrift bank. We have a significant presence in home mortgages, auto loans, and small business loans (Ka-Negosyo), and personal loans. We promote easy access to our retail lending products through a dedicated website, and support our applications with credit scoring and processing systems that enhance our responsiveness to clients.

In 2014, we experienced significant growth across our home mortgage, auto, and Ka-Negosyo loans portfolios. At P99.1 billion, home mortgages constituted the largest share of the bank's retail loan portfolio, at 39 percent. Auto loans recorded net growth of 20 percent; Ka-Negosyo loans, 28 percent.

GREAT EXPERIENCE = STRONG GROWTH



BPI Family Savings Bank's focus on great customer experience enabled by technology resulted in double-digit growth for our consumer loans.

60 SECONDS AMOUNT OF TIME A CLIENT CAN GET PRE-QUALIFICATION ON AN AUTO LOAN ONLINE

FIRST CAR PLAN A PROGRAM THAT PROMOTES OWNERSHIP OF BRAND-NEW CARS AMONG FIRST-TIME OWNERS

This features a selection of small, affordable cars, and special loan rates and terms.

24% INCREASE IN AUTO LOAN RELEASES

15% GROWTH IN TOTAL CUSTOMER BASE



96% INCREASE IN VISITORS TO BPILOANS.COM

32% GROWTH IN LOAN APPLICATIONS CARRIED OUT THROUGH THE SITE



Corporate Lending. Corporate loans, at P555.8 billion, comprise the largest share of our lending book, at 68.5 percent of net loans. We also experienced significant rates of growth this year in our corporate loan book, at 30 percent. We offer a diverse range of lending products to corporate clients, including short term inventory and trade financing, term facilities for the financing of capital expenditures or acquisitions, and project financing. We also innovate specialized lending products, such as:

- Leasing, which provides innovative asset financing alternatives to our clients. We concluded a partnership with Century Tokyo Leasing, one of Japan's leading and most profitable leasing companies. BPI Century Tokyo Lease and Finance offers not only a unique ability to source equipment from Japan's leading OEMs (original equipment manufacturers), but also new technologies that allow it to expand its class of assets covered by its leasing and rental products.

- Sustainable Energy Finance, which is provided in partnership with the IFC, the investment arm of the World Bank. IFC launched its first SEF awards in October 2014 and, four out of seven SEF awardees hailed from BPI. SEF loans cover projects in energy efficiency, renewable energy, and climate change projects. In 2014, SEF loans and leases totalled P9.6 billion, bringing BPI's cumulative total of SEF-funded loans to P22.8 billion. As of end-2014, outstanding SEF loan balances reached P16.9 billion, over 73 percent from previous levels.

- USAID Credit Facility, which was initiated in 2012. At P1.15 billion in total availments since inception, the facility achieved 100-percent utilization in 2014. This facility is targeted at SMEs in the countryside seeking to fund working capital and capital expenditure requirements and, through BPI, has had a direct benefit on SMEs involved in health care, tourism, agribusiness, manufacturing, and trading.

We focus on the excellence of our service. We work to design and deliver financial products and services that address specific needs, and in ways that clients find accessible, convenient and efficient.



FUNDING ENVIRONMENT-RESPONSIBLE ENTERPRISES

P9.6
BILLION
TOTAL LOAN RELEASES
>40% of P22.8B releases in last 6 years
73%
GROWTH
IN OUTSTANDING LOANS



167,516
MWH
ENERGY SAVED BY SEF PROJECTS YEARLY

1,149,162
MWH
CLEAN ENERGY PRODUCED

851,317
TONS
GREENHOUSE GAS EMISSIONS CUT

ALMOST
200
CLIENTS FINANCED BY SEF

LENDING TO COUNTRYSIDE ENTERPRISES

Financing offered by tie-up with USAID

- Working capital
- Capital expenditure for start-up or expansion



CLOSE TO
100%
UTILIZATION RATE
P1.15
BILLION
TOTAL AVAILMENTS IN 2014

SECTORS ASSISTED

- Health care
- Tourism
- Agribusiness
- Manufacturing
- Trading





We provide comprehensive payment solutions to both retail and corporate clients.

Bancassurance. BPI has two strategic partnerships in the bancassurance space: In life insurance, we are partnered with Philam Life, one of the country's longest-standing and largest providers of life insurance policies, and a subsidiary of Hong Kong's AIA Group; in non-life insurance, we are partnered with Mitsui Sumitomo Insurance (MS), one of Japan's largest non-life insurance companies. Together, BPI-Philam and BPI/MS are at the forefront of providing services that offer Filipinos financial security. Sales executives are dispersed throughout BPI's extensive branch network and render advisory services that address customers' financial and protection needs.

In 2014, BPI-Philam generated 21-percent growth in annualized premiums, ranking it in the Top 5 of its industry segment. BPI/MS, for its part, achieved net premiums at a

level highest in its 12-year history of partnership with BPI. BPI/MS achieved strong profitability, notwithstanding low interest rates, weaker trading environments, and higher claims activity related to bad weather.

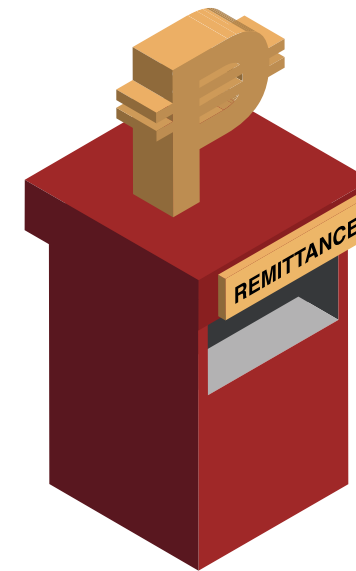
Payments. BPI provides comprehensive payment solutions to both retail and corporate clients. The bank services the funds transfer requirements of overseas Filipinos, offering direct-to-account, branch pick-up, and door-to-door delivery alternatives. Remittance volume and transaction count grew 11 percent and 10 percent, respectively, garnering BPI a 29-percent share of the remittance market last year. For corporates, we offer a comprehensive array of bills and supplier payment services, both electronic and in-branch, payments to government agencies, check-printing services, and international wire transfers.

STEADY GROWTH IN 2014

11% GROWTH IN TRANSACTION VOLUME

10% GROWTH IN TRANSACTION COUNT

29 NEW REMITTANCE TIE-UPS



29% SHARE OF THE REMITTANCE MARKET

46% SHARE IN SEA-BASED REMITTANCES

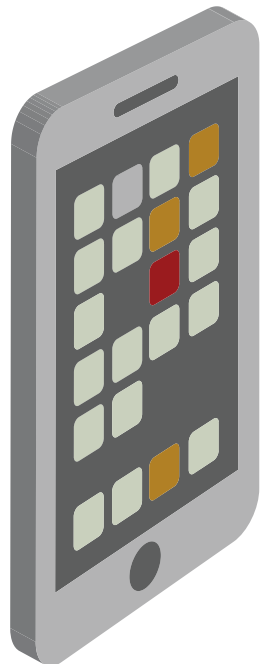
We are also one of the country's largest providers of credit card services. We ranked first in consolidated merchant acquisition billings, with a market share of 37 percent; second in card base, with a share of 18 percent; second in issuing billings, with share of 22 percent; and third in credit card loans, with share of 18 percent. We announced a strategic partnership with Global Payments (GPN), an Atlanta, GA-based payment services provider, which will further expand our footprint of POS terminals and expand offerings to BPI clients. Our partnership with GPN is scheduled to conclude in late 2015, pending regulatory approvals.

We are also active in providing internet and mobile banking services. Our retail app, BPI Express Mobile, and corporate app, BPI ExpressLink Mobile, offer some of the most function-rich payment solutions available to Philippine customers. Enrollments in our retail application grew 60 percent and active users, 71 percent. Furthermore, enrollments in our corporate application grew 73 percent and active users, 45 percent. BPI Express Mobile has consistently ranked as the most downloaded application in the free finance category of both the App Store and Google Play.



BANKING MADE MORE ACCESSIBLE

31% CLIENTS WHO NOW BANK ONLINE OR 2M



EXPRESS MOBILE APP

MOST DOWNLOADED

APP IN APP STORE AND GOOGLE PLAY

228% INCREASE

IN APPLICATION USAGE

60% GROWTH

IN NUMBER OF CLIENTS ENROLLED

7 in 10 ENROLLED

USERS WHO ACTIVELY USE THE APP



CASH DEPOSIT MACHINES

395 CDMs

DEPLOYED NATIONWIDE

54% GROWTH

IN USE OF CDMs

SPREAD THE HAPPY

The fast growth of the country's first offline, contactless prepaid card system, the Happy Plus Card created and powered by BPI for Jollibee Foods Corporation, shows the readiness of Filipinos to adopt cashless payment modes.



HOW DOES IT WORK?

The user simply waves his Happy Plus card over the reader at the point of sale in order to pay for his meal, no signature or PIN verification required.

2M

HAPPY PLUS CARD BASE

156%

ANNUAL GROWTH

1,600

NO. OF STORES ACCEPTING THIS CARD

P5B

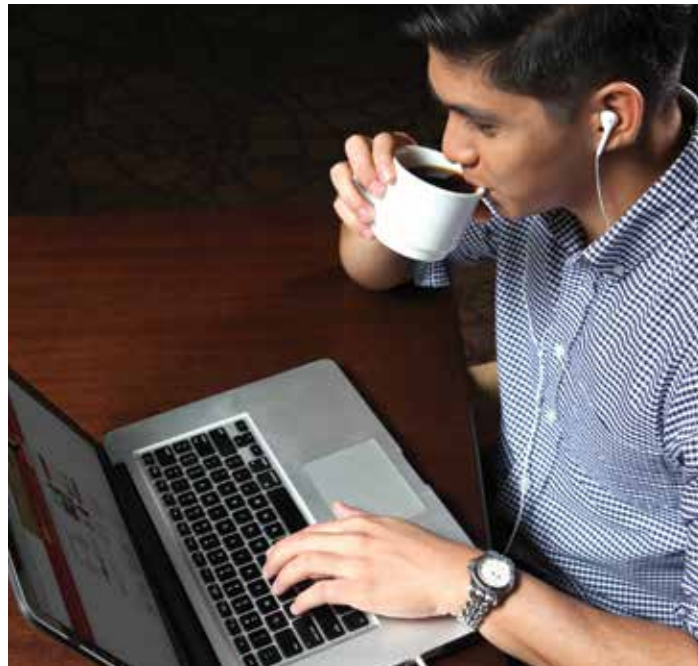
BILLINGS IN 2014 ALONE

We offer a comprehensive array of bills and supplier payment services, both electronic and in-branch.





Our mobile apps offer some of the most function-rich payment solutions available to Philippine customers.



Transaction Banking. We help clients manage their working capital and liquidity needs, and assist in managing the logistics of collections and payments, and providing reports thereon. We have cooperated closely with our large industrial clients this year, helping them manage down increased working capital requirements, given logistical bottlenecks that have adversely impacted their supply chain. We are also active in providing foreign exchange and trade financing services. In 2014, we became the first Philippine bank to issue Renminbi-denominated letters of credit, facilitating the importation of goods and services from the Peoples' Republic of China.

Investment Banking & Capital Markets. BPI Capital is our flagship in investment banking and BPI Securities, in equities brokerage. In 2014, Bloomberg ranked us as No. 1 in managing equity capital markets transactions, with an 18 percent market share; and No. 3 in debt capital markets, with a 16 percent share. The markets saw BPI demonstrate newfound leadership in equities transactions, where it helped successfully conclude initial public offerings for leading companies such as Century Pacific, Stores Specialists, the Max's Group, and Integrated Micro-Electronics. In debt capital markets, we helped corporate clients raise P143 billion in total funding, including JG Summit's P30 billion and PLDT's P10 billion retail bond offerings.

FACILITATING RENMINBI-DENOMINATED TRADE

We are the first local bank to issue Renminbi-denominated letters of credit and facilitate Renminbi-denominated foreign outward payments to China.



RENMINBI 30M
(ABOUT \$5M)

WORTH OF TRANSACTIONS FACILITATED

We also innovated in loan financing and financial advisory services. We financed Navegar's acquisition of the Bistro Group, as well as Baring Private Equity's purchase of the ACCRA Law Tower. We also raised P33 billion in project financing for Pagbilao Energy, the largest of its kind in Philippine domestic project finance. A significant amount of our loan and capital markets financing activity arose from financial advisory assignments. We advised, among others, the Max's Group in its acquisition of Pancake House, providing acquisition financing, all prior to its initial public offering. In doing so, BPI helped transform the Max's Group into the largest casual dining restaurant group in the country.

TOP IN INVESTMENT BANKING

NUMBER 1 IN EQUITY UNDERWRITING*

18% MARKET SHARE

MORE THAN P94B RAISED IN EQUITY CAPITAL FOR PH FIRMS

- Introduced well-known brands to stock market investors
- Max's Group
 - SSI Group
 - Century Pacific Foods

NUMBER 3 IN DEBT UNDERWRITING*

16% MARKET SHARE

OVER P143B RAISED IN CORPORATE BONDS

- Notable bond offerings:
- JG Summit's P30B retails bonds
 - PLDT's debut P10B retail bonds



*Source: Bloomberg

Global Markets

In Global Markets, our core competence is the management of the bank's positions in liquidity, interest rates, foreign exchange, and fixed income capital markets instruments. We are one of the largest Eligible Dealers in government securities, and are a major counterparty to the Bureau of the Treasury (BTr). Our prudent stance in markets risk-taking resulted in significant retention of comprehensive income from net income, underscoring our focus on quality of earnings and our desire to achieve profitability through the interest rate cycle.

We retain in-house economists who conduct extensive research on Philippine and global macro-economic trends. Furthermore, we gather market intelligence through formal advisory arrangements with major international banks and asset managers. Finally, we have reinforced our sales and distribution teams to improve across-the-board connectivity with institutional, corporate, private banking, and retail clients, thereby improving our intelligence about market movements and generating flow-related volume and revenues. We are a significant complement to BPI Capital, as it increases its capital markets origination activity and builds out its syndicate functions.

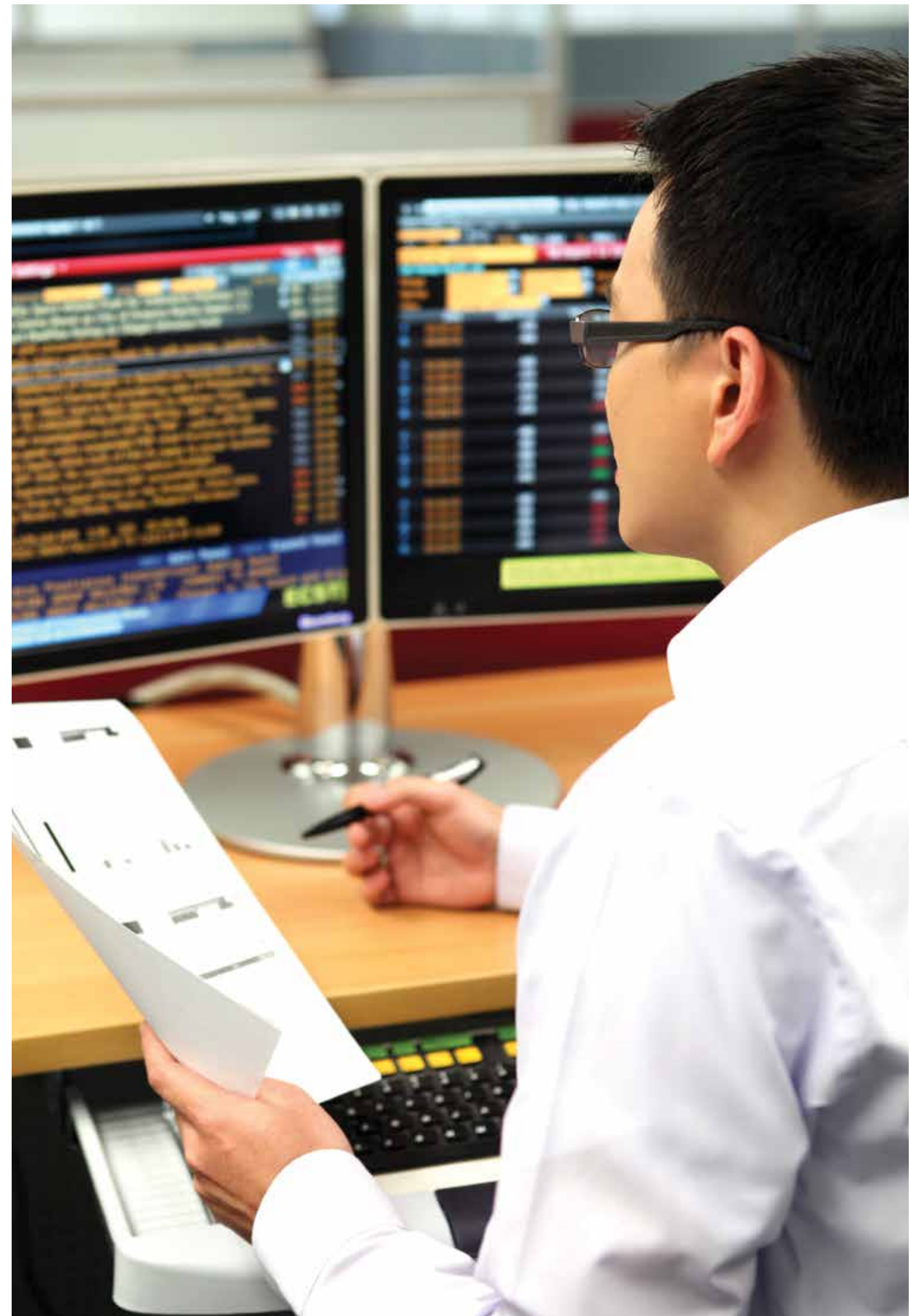
Expanding Access

In 2014, we opened investments and foreign exchange centers in Manila and Quezon City; we also plan to open yet another in Cebu City in February 2015. We have also strategically placed marketing units present in areas like Cebu, Davao and Pampanga, complementing the ability of our branch network to provide funding, foreign exchange, and hedging products to our clients. We are committed to providing services tailored to the local needs of its clients needing to access fast-moving global and capital markets.

Industry Position

Our performance in Global Markets points to significant opportunities for earnings growth for BPI:

- Awarded by the BTr as the 2nd Best Performing Government Securities Eligible Dealer;
- Ranked No. 3 by the Philippine Dealing and Exchange Corporation's fixed income exchange;
- Awarded Overall Best Local Currency Interest Rate Research and Market Coverage by Asiamoney, in recognition of its first-rate economic and financial markets research.





People and Community

In 2014, BPI saw its largest organic increase in manpower in its past 10 years. From 13,024 unbankers in 2013, we closed last year with approximately 14,500 employees, resulting in growth of 12 percent. This growth underpinned the significant increase in volumes seen by the bank over the same period.

Human Resource Development

Employee training and education are essential to our growth strategy. By ensuring that our staff, specialists, and officers are trained, steeped in best practices, and exposed to an environment that nurtures continuous learning, we are able to provide the highest quality service to our customers.

We highlight below some of the significant training activities BPI conducted last year:

Credit Risk Analysis Certification Program. This program, designed for corporate account managers and credit policy officers, enhanced the credit assessment capabilities of officers and improved the bank's lending practices overall, helping to boost its aggressive growth strategy.

“Target shooting” sales course. Relationship managers and sales assistants who took part in this program improved their skills in sales and executing campaigns in offsite or out-of-branch locations. Some 400 Relationship Managers and Sales Assistants participated in this refresher course.

Cross-selling program. The bank's branch personnel were drilled in the practice of cross-selling in support of our retail client campaigns. Training on this front focused on providing tools that enabled value-adding conversations with our customers.

Regular programs. Through our so-called BPI University, unbankers benefit from a process of continuous training throughout their careers in the bank—these programs range from the new employee orientation and values orientation workshops for new hires; officers training program, which initiates our growing corps of officers into their leadership roles; sales officers training program; the Leadership



Excellence Acceleration Program, conducted in partnership with Harvard Business School, focusing on executive education; and the RM Academy, an intensive two-month program designed for strengthening the financial advisory skills of our relationship managers.

Aside from a wide range of mandatory, functional, leadership and core courses offered in-classroom or online via BPI's My eLearning portal, the bank introduced new focused programs last year, including the corporate finance program for investment and corporate banking employees, a supply chain management workshop for the shared administrative services group, and a business process redesign workshop for the operations team.

Competitive Compensation

BPI has placed increasing focus on recruiting best-of-class professionals, and putting the most qualified person into each role. A key component of our value proposition to employees is a competitive compensation package, one that is aligned with performance standards we endeavor to consistently apply across the bank. The bank offers a basic monthly salary that exceeds the mandatory minimum wage. It also offers generous benefits that include quarterly bonuses (inclusive of 13th month pay), discretionary bonuses, overtime pay, and various leave credits (vacation, sick, emergency and maternity/paternity).

The bank administers its compensation programs in a way that rewards high-level performance. It maintains sound salary structures that recognize the potential, competence and responsibility levels of individuals. The compensation packages are reviewed on a regular basis, while job evaluations at the beginning of the year serve as the bases for salary adjustments and promotions.

One of our major incentives for deserving officers is the grant of an annual performance bonus, which is directly related in amount to the size and quality of the bank's annual earnings. Our PB payouts are based not only on an officer's individual productivity and performance relative to assigned targets, but also on a relative comparison to the performance of peers within their rank.

Another testament to BPI's commitment of offering greater value to its employees—and aligning management's interest with shareholders—are its equity-linked incentive plans. For two consecutive years now, the bank has granted stock purchase and stock option plans to its most senior officers.

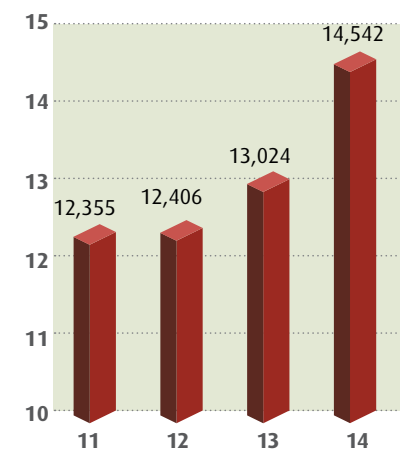
Expeditious CBA Signing

Collective bargaining agreements with unionized employees, effective for years 2014 to 2016, were signed in record time. A total of 24 labor unions signed the CBA, which covered salary increases and employee benefits, such as allowances and loans.

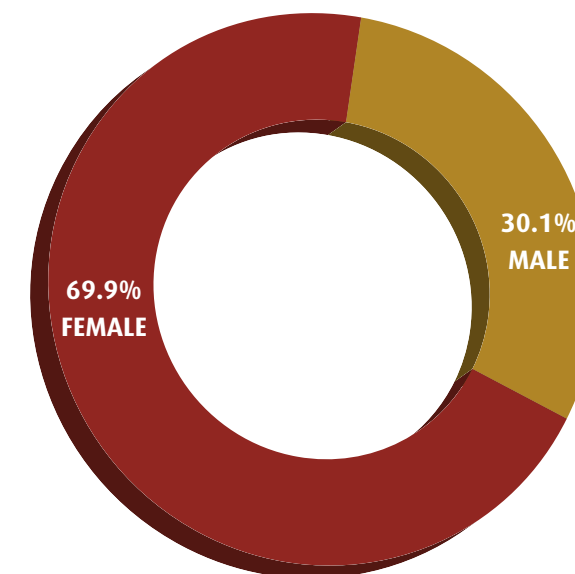
Rank distribution

President and EVP	7
SVP	34
VP	140
AVP	266
SM	676
MGR	1,185
AM	2,311
Staff	9,923

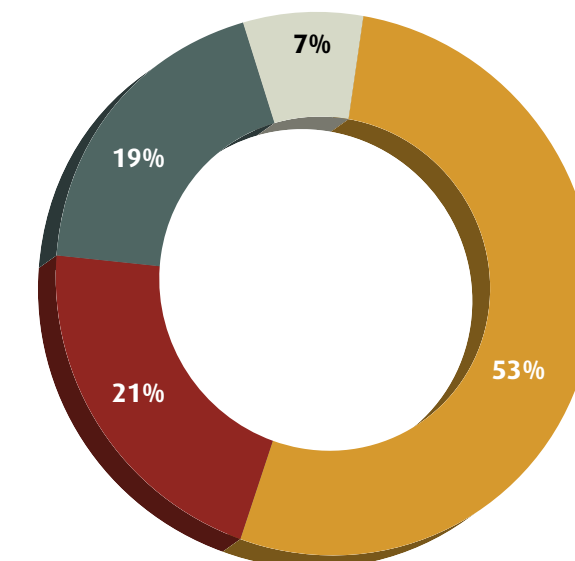
HEAD COUNT



GENDER

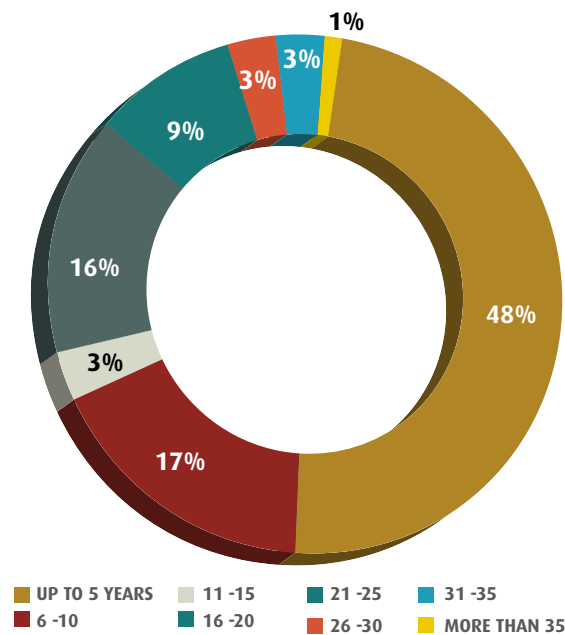


AGE



UP TO 30 YEARS 41-50
31-40 51-60

TENURE



Responsible Corporate Citizenship

In 2014, the bank once more demonstrated its corporate citizenship through the BPI Foundation, which made significant contributions to the lives of Filipinos through its triple advocacy of entrepreneurship, education and environment, marked by two milestone events.

Climate change adaptation study. In December 2014, the BPI Foundation and the World Wide Fund for Nature (WWF) completed a four-year, 16-city business-risk assessment and climate change adaptation study, which generated socio-economic baselines for sectors most likely to be affected by climate change. The study has proven useful not only in understanding city-specific business vulnerabilities, but also in aiding local governments to implement policies and actions to mitigate the risks arising from climate change.

For BPI, recommendations made through the study will serve as reference in the development of concrete and innovative solutions related to sustainable development.

The cities covered by the study are Laoag, Santiago, Baguio, Dagupan, Angeles, Batangas, Naga, and Puerto Princesa in Luzon; Iloilo, Tacloban, and Cebu in the Visayas; and Butuan, Cagayan de Oro, Davao, Zamboanga, and General Santos in Mindanao.

For the fourth straight year, the bank was named by the WWF-Philippines as its Corporate Partner of the Year.

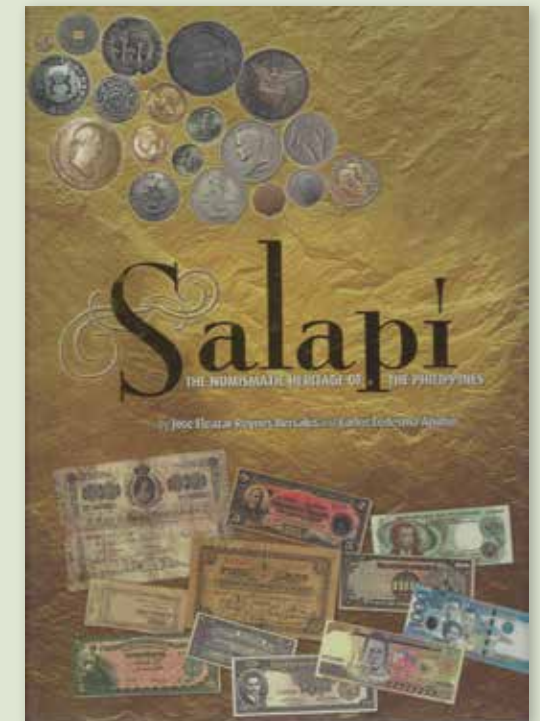
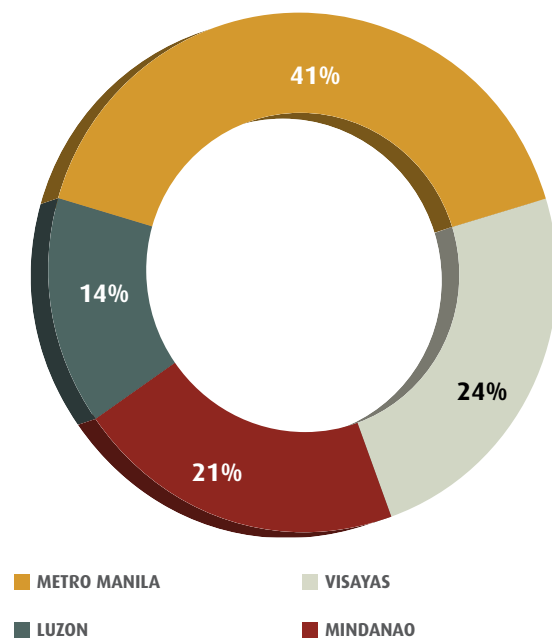
BPI-DOST Science Awards. Celebrating its 25th year in 2014, the BPI-DOST Science Awards recognizes and gives incentives to outstanding young men and women whose science and technology projects are entered in the competition. Undertaken with the country's Department of Science and Technology, the Awards promotes budding science professionals in the fields of mathematics, physics, chemistry, engineering, computer science and biology as they come up with innovative projects that contribute to nation-building.

Last year's 29 awardees, screened from 10 partner universities, were given cash prizes and scholarship grants from the DOST Science Education Institute.

Employee Volunteerism

The bank has a built-in volunteerism program, BPI Bayan ("bayan" means "nation" in Filipino), which encourages and organizes employees to devote personal time to communities relevant to BPI and its clients. Using a seed fund first provided by the bank in 2009, BPI Bayan is at the forefront of various social uplift programs. Its funding has since grown thanks to the efforts of the bank's employee-community organizers, making the community programs self-sustaining.

GEOGRAPHY



The bank, through the BPI Foundation, published the book, *Salapi: The Numismatic Heritage of the Philippines*, a 280-page coffee table book chronicling the evolution and development coins, bank notes, and other currencies of the past. The book was written by Jose Eleazar Reynes Bernales and Carlo Ledesma Apuhin, a Cebu-based relationship manager of BPI.

Salapi, unveiled during the launch of the BPI Cebu Library in January 2014, honors the richness of Philippine culture and is a preeminent testimony to the Filipinos' pioneering heritage and capacity for economic development and progress.



Corporate Governance

Tradition of Integrity

For 163 years, BPI has built its business on a foundation of integrity and ethical business practice. Our stockholders, clients, business partners, employees, and suppliers expect and deserve to transact with a bank they can trust. Strong corporate governance represents the very core of our reputation. While we memorialize our governance standards in various charters and manuals, we aspire that integrity and ethics define our decision making and behavior as a matter of culture, not conformity to rules.

Benchmarks

We benchmark our Corporate Governance under the guidance of the Bangko Sentral's Circular 749 and the ASEAN *Corporate Governance Scorecard*, in accordance to standards prescribed by the Securities and Exchange Commission and Institute of Corporate Directors. Furthermore, we continuously gauge against risk-based audit standards set forth by the Bangko Sentral's Capital Adequacy, Asset Quality, Management Quality, Earnings, Liquidity and Sensitivity to Market Risk (CAMELS) rating system. Our policies and standards comply with applicable laws and regulations, and are regularly reviewed and updated to conform to changes in the global and local regulatory environments.

We pursue best practices in enterprise and financial risk management across all our businesses. In 2014, we were awarded *House of the Year-Philippines* by *Asia Risk* magazine, the first-ever bestowed to a Philippine bank.



Corporate Governance

Board of Directors

Our Board of Directors is the highest governance body of the bank. It provides direction on the business of the bank and delegates the conduct of such business to the bank's management and operating levels under the leadership of its Chief Executive Officer. The Board's directive is to generate reasonable returns on shareholder capital by, among others, reviewing and approving strategies and objectives, appointing senior executives, confirming organizational structures, approving enterprise-wide policies, monitoring business and financial performance, overseeing risk management frameworks and risk appetite, and fostering regulatory compliance. BPI's Board operates with significant independence from its management. Our Chairman has historically been a non-executive and separately appointed from our Chief Executive Officer.

Our Board convenes regular meetings in accordance with a monthly cycle, and special meetings may be called for as needed; in 2014, the Board convened 14 times.

Composition: Our Board consists of 15 directors, six of whom are classified as independent, or having no interest or relationship with BPI at time of election, appointment, or re-election. Fourteen of these 15 directors are non-executive officers of the bank, and the one executive director is the bank's President and CEO.

Qualification: Our board members are business and civic professionals of significant stature and integrity, with a track record of accomplishment in their own right, often independent of our bank. They deliver a broad range of experience and expertise on subject matters relevant to the governance of present-day universal banking institutions.

Selection: Qualified individuals are screened, reviewed, and evaluated by the Nominations Committee. Board members are elected by BPI stockholders who are entitled to one vote per share at the bank's annual stockholders meeting.

Compensation of Board Members

The bank's by-laws provide that:

Each director shall be entitled to receive from the bank, pursuant to a resolution of the Board of Directors, fees and other compensation for his services as director. The Board of Directors shall have the sole authority to determine the amount, form and structure of the fees and other compensation of the directors. In no case shall the total yearly compensation of directors exceed 1 percent of the net income before income tax of the bank during the preceding year.

Board members receive per diems for each occasion of attendance at meetings of the board or of a board committee. Bonuses paid to board members may be given as approved by stockholders during the annual stockholders meeting, upon recommendation of the personnel and compensation committee. Historically, total compensation paid to all board members have been significantly less than the cap of 1 percent of the total net income stipulated by the bank's by-laws.

Board members within the BPI Group with executive responsibilities are compensated as full-time officers of the company, not as non-executive directors. This is consistent with our HR policy on offering a competitive compensation package, one that's aligned with bankwide performance standards.

The bank's compensation practice in relation to board members remains similar to that of last year.

Board Committees

The bank's by-laws allow the Board to carry out its various responsibilities through the Executive Committee, as well as delegate specific responsibilities to other committees for specific areas of focus, as allowed by regulations. The bank's Nominations Committee reviews the charter and board member assignments of each board committee annually. The bank has a total of nine board committees, as follows:

Executive Committee. The Executive Committee, in the interim between meetings of the Board, possesses and exercises all powers of the Board in the management and direction of the affairs of the bank subject to the provisions of the bank's by-laws, and the limitations of the law and other applicable regulations. It serves as the operating arm of the Board in all matters related to corporate governance. It approves all major policies and oversees all major risk-taking activities, including the approval of material credit exposure.

Executive Committee Members	
Chairman	Jaime Augusto Zobel de Ayala
Vice chairman	Fernando Zobel de Ayala
Members	Cezar P. Consing, President and CEO
	Rebecca G. Fernando
	Aurelio R. Montinola III
	Antonio Jose U. Periquet (Independent)
	Mercedita S. Nolleto

Corporate Governance Committee. The Corporate Governance Committee assists the board in fulfilling its corporate governance responsibilities, and ensures the board's effectiveness and due observance of sound corporate governance principles and guidelines, as embodied in the Corporate Governance Manual.

Corporate Governance Committee Members	
Chairman	Artemio V. Panganiban (Independent)
Members	Romeo L. Bernardo (Independent)
	Mercedita S. Nolleto
	Oscar S. Reyes
	Astrid S. Tuminez (Independent)
	Dolores B. Yuvienco

Nominations Committee. The Nominations Committee ensures that the Board of Directors is made up of individuals of proven integrity and competence, and that each possesses the ability and resolve to effectively oversee the bank in their capacity as member of the Board and of their respective committees. This committee also reviews and evaluates the qualifications of all persons nominated to the Board.

Nominations Committee Members	
Chairman	Romeo L. Bernardo (Independent)
Members	Jaime Augusto Zobel de Ayala
	Fernando Zobel de Ayala
	Xavier P. Loinaz (Independent)
	Vivian Que Azcona

Audit Committee. The Audit Committee monitors and evaluates the adequacy and effectiveness of the bank's internal control system. It also provides oversight of the overall management of operating risks, financial reporting and control, internal audit department and external auditors, quality of compliance with the compliance and corporate governance manuals and reviews conducted by the Bangko Sentral.

Audit Committee Members	
Chairman	Xavier P. Loinaz (Independent)
Members	Octavio V. Espiritu (Independent)
	Aurelio R. Montinola III
	Oscar S. Reyes
	Dolores B. Yuvienco

Corporate Governance

Risk Management Committee. The Risk Management Committee is tasked with nurturing a culture of risk management across the enterprise. It proposes guidelines and regularly reviews risk management structures, metrics, limits, and issues across the bank, in order to meet and comply with regulatory and international standards on risk measurement and management. It also supports technology and training for key personnel in risk management.

Risk Management Committee Members	
Chairman	Octavio V. Espiritu (Independent)
Members	Cezar P. Consing Romeo L. Bernardo (Independent) Aurelio R. Montinola III Antonio Jose U. Periquet (Independent) Astrid S. Tuminez (Independent)

Trust Committee. The Trust Committee oversees the proper administration and management of the bank's trust and other fiduciary business, and its investment activities to ensure effective management of all risks inherent in the business.

Trust Committee Members	
Chairman	Mercedita S. Nollado
Vice Chairman	Antonio Jose U. Periquet (Independent)
Members	Fernando Zobel de Ayala Cezar P. Consing Romeo L. Bernardo (Independent) Rebecca G. Fernando Maria Theresa M. Javier, Trust Officer

Personnel & Compensation Committee. The Personnel & Compensation Committee directs and ensures the development and implementation of long-term strategies and plans for the bank's human resources, in alignment with the Board's vision for the organization.

Personnel & Compensation Committee Members	
Chairman	Fernando Zobel de Ayala
Members	Romeo L. Bernardo (Independent) Aurelio R. Montinola III Oscar S. Reyes Vivian Que Azcona

Retirement & Pension Committee. The Retirement & Pension Committee oversees the fiduciary, administrative, investment portfolio, and other non-investment aspects of the bank's retirement plan.

Retirement & Pension Committee Members	
Chairman	Mercedita S. Nollado
Members	Cezar P. Consing Rebecca G. Fernando Florendo G. Maranan, Head of Human Resources Management

Related Party Transactions Committee. The Related Party Transactions Committee is charged with ensuring that the bank's dealings with the public and various stakeholders are imbued with the highest standards of integrity. In conjunction with the Executive and Corporate Governance committees, this committee endeavors to ensure compliance with Bangko Sentral's Circular 749 (on strengthening corporate governance). It independently reviews, vets, and endorses all related party transactions—above and beyond transactions qualifying under directors, officers, stockholders, and related interests (DOSRI) restrictions—such that these transactions are dealt on terms no less favorable to the bank than those generally available to an unaffiliated third party under the same or similar circumstances.

Related Party Transactions Committee Members	
Chairman	Octavio V. Espiritu (Independent)
Members	Rebecca G. Fernando Oscar S. Reyes Romeo L. Bernardo (Independent) Rosemarie B. Cruz, Chief Audit Executive (Non-voting) Marita Socorro D. Gayares, Chief Compliance Officer (Non-voting)

Operating Management

Organization

BPI's President and CEO is responsible for formulating the strategy and the overall management of the bank to achieve desired outcomes of its strategy.

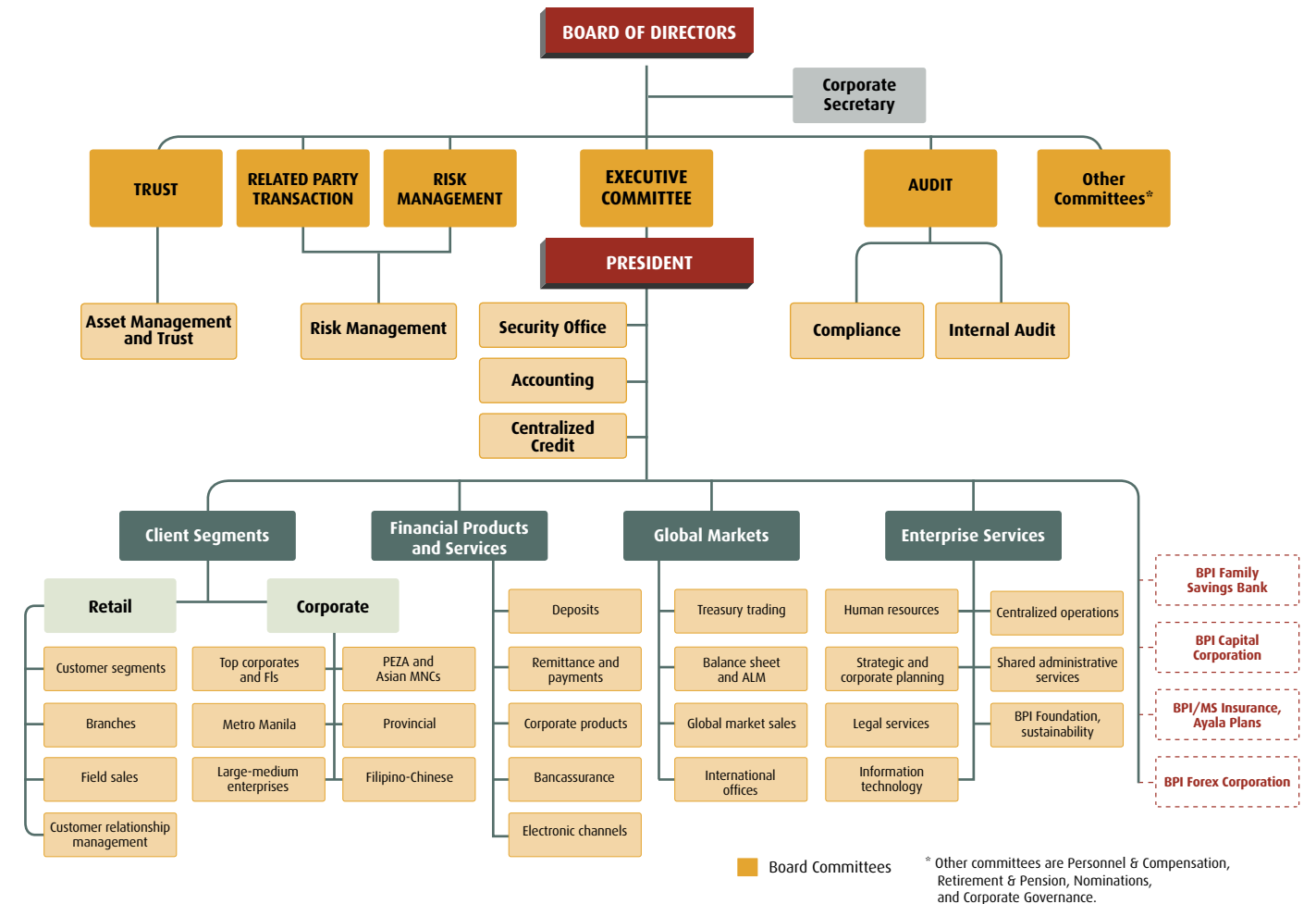
Effective January 2015, the Bank has five Executive Vice Presidents, each reporting to the President and CEO and responsible for an area of the bank's business, as follows:

- Natividad N. Alejo, Head, Retail Clients;
- Alfonso L. Salcedo, Head, Corporate Clients;
- Simon R. Paterno, Head, Financial Products & Services;
- Antonio V. Paner, Head, Global Markets; and
- Joseph A. Gotuaco, Head, Enterprise Services.

The EVPs are responsible for ensuring development and expansion of the bank's client relationships; service quality and innovation in its products and services; management of the bank's trading business including enterprise asset-liability management; and reliability, productivity, and cost-efficiency in the bank's operating infrastructure.

In addition to the above, the bank has a Management Committee, which is convened from time to time to discuss matters of firm-wide relevance. The Management Committee is appointed by the President and CEO, and its membership is rotated periodically, to reflect current initiatives of the bank and to grant senior decision-making exposure to executives below the rank of EVP.

The following is an overview of the bank's principal activities and its functional organization:



Corporate Governance

Planning and Performance Management

We articulate our strategy in periodic planning exercises, distill our plans in formal budgets, and conduct periodic performance reviews against both our budgets and our past performance. We act in accordance with well-defined operating policies and procedures, and ensure the accuracy and transparency of our operational and financial reporting to protect the bank's reputation for integrity and fair dealing. We also strive to achieve accountability in our revenue performance, efficiency in our expenditure of resources, and high quality in the delivery of services and achievement of customer satisfaction. Our management is periodically reviewed and rewarded according to their performance relative to assigned targets, and to feedback from customers and peers.

We place strong emphasis on prudent risk taking and risk management. Specific management committees ensure that major risks are identified, measured, and controlled against established limits. These management committees include:

- Credit Committee;
- Assets and Liabilities Committee;
- Operational and IT Risk Management Committee; and
- Information Technology Steering Committee.

The membership of these committees consist of the bank's senior management (or, in the case of the ITSC, non-executive board members), who are subject matter experts in areas of knowledge relevant to the respective committees. Members include client specialists, product specialists, members of the Risk Management Office, and other senior executives.

Risk Management

We espouse a comprehensive risk management and capital management framework, which integrates the management of all our risk exposures. We work to ensure that the bank has adequate liquidity and capital to mitigate risks. Our framework conforms not only to our own rigorous standards, but also to Bangko Sentral directives promoting

an effective Internal Capital Adequacy Assessment Process and other risk management processes. Our framework focuses on three key components:

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

Our board fulfills its risk management function through the Risk Management Committee. More junior committees and units within our organization manage more granular financial and non-financial exposures. Our Risk Management Office is headed by our Chief Risk Officer. The CRO is ultimately responsible for formulating risk management policies and methodologies in alignment with the strategy of the bank, ensuring that risks are rationally undertaken and within the bank's risk appetite, as well as commensurate to maximize returns on capital. The CRO and the RMO facilitate risk management learning programs and promote best practices on an enterprise-wide basis.

We track risks according to three major classifications: credit, market, and operational risks. Credit risk arises from the bank's core lending and investing business; market risk arises from the bank's business in managing interest rate and liquidity gaps, as well as in the trading and distribution of fixed income, foreign exchange, and derivative instruments (as allowed by regulation); and operational risk arises from the bank's people and processes, its information technology, threats to the security of its facilities, personnel, or data, business interruption risk, reputational risk, and compliance obligations to regulatory or taxing authorities, among others.

Financial risk management is carried out by a dedicated team of skilled risk managers and senior officers who have extensive prior operational experience working within our firm. Our risk managers regularly monitor key risk indicators, and report exposures against carefully established credit, market, and operational and IT risk metrics and limits approved by our Risk Management Committee.

Credit Risk. We have a Credit Policy and Risk Management unit responsible for the overall management of the bank's credit risk. CPRM is accountable to the RMC in assisting to establish the bank's risk appetite and in the RMC's oversight function on credit risk. In addition, the CPRM supports senior management in ensuring the quality of the bank's loan portfolio by identifying, measuring, monitoring, reporting, and controlling credit risks.

CPRM ensures that the bank's stringent underwriting standards and rating parameters are met by the various lending units. In 2014, the bank experienced significant growth in loan volumes, and did so in general compliance with regulatory and prudential requirements relating to credit risk management (for example, DOSRI restrictions, single borrower's limits, and credit concentration, among others).

The bank continues to maintain a diversified loan portfolio with no significant concentrations. Our top 20 group exposures generally remain within the internal single borrower's limit and operate in diversified industries. Our commercial loans account for about 78 percent of the total portfolio, consumer loans account for the balance of 22 percent. Large corporate borrowers comprised approximately 85 percent of commercial loans, while SMEs account for the remaining 15 percent.

Credit reviews are regularly conducted to assess that the credit process—from loan origination, credit analysis, approval, implementation, and administration—conforms to the standards set in our internal policies and complies with regulatory requirements. In 2014, we reviewed eight key lending units and portfolios nationwide, and its reviews revealed generally acceptable credit performance and portfolio qualities. As the bank's loan portfolio grew, asset quality generally improved in terms of both non-performing loan amounts and ratio. As of year-end 2014, the bank's gross 90-day NPL ratio stood at 1.52 percent and net 30-day NPL ratio at 0.5 percent, the lowest for the bank in the last seven years. In accordance with PFRS reporting standards, NPL reserves cover improved in 2014 to 109 percent from 105 percent in 2013.

Asset quality is reviewed and monitored through the regular monitoring and validation of the internal credit risk rating of corporate borrowers proposed by the lending units. We have developed and used internal credit risk rating system and scoring models, which are then independently validated by a reputable independent third party, jointly with our Risk Models Validation unit. Regular monitoring of our ICRRS and scoring models is done to ensure that their predictive powers remain both qualitatively and statistically acceptable. In 2014, we implemented enhanced retail housing credit risk scorecards and an internal credit risk rating model for corporate SMEs, incorporating probability of default estimates into our models, as part of the bank's preparations to transition into a Basel Internal Ratings-Based (Foundation IRB) approach.

Regular reviews of the appropriateness of classifications and impairment rates of classified loan accounts are conducted for proper assessment of loan quality. Similarly, collective impairment of unclassified corporate accounts is determined based on the PDs of each rating grade. On the other hand, consumer loans are impaired through a portfolio-approach methodology using historical flow rates as basis for the impairment factors.

Stress tests are regularly conducted on the bank's loan portfolio to determine the impact of various economic scenarios, to surface any undue credit concentration risk and to comply with regulatory reporting. Results showed that even on an adverse macro-economic scenario, our capital adequacy ratio will remain above the regulatory CAR requirement of 10 percent.

We undergo continuous cycles of improvement, in our quest to enhance the bank's credit policies and guidelines, as well as review lending programs to ensure that credit parameters meet the bank's standards, regulatory compliance and best practices, while supporting our firm's growth strategies. Our credit risk information system is currently being upgraded to a more robust system that will enable more granular analysis of the loan portfolio while delivering timely and accurate reporting of the bank's loan structures, credit concentrations,

Corporate Governance

and other risk data analytics. These efforts are undertaken in recognition of the Bangko Sentral's recent policy memo, *Guidelines on Sound Credit Risk Management Practices*.

Market Risk. Our Market Risk Management unit implements risk metrics that guide dealers in preserving incomes during times of volatility and uncertainty. It develops forward-looking risk scenarios and analyze their impact on profitability, leading to the establishment of market and liquidity risk measurements and limits that balance risk appetite with profitability goals. In 2014, this unit oversaw a rigorous regime of market risk discipline which led to significant growth in our total comprehensive income.

The year 2014 was characterized by increased volatility in both global and local financial markets. Against this, we implemented stringent measures to manage the market risk exposures of the bank, in particular, the risk of rising interest rates. Furthermore, we introduced supplemental measures to highlight sensitivities to movements in additional risk factors, as well as risk-adjusted performance measures to highlight quality of earnings. A significant area of focus for us this past year was improving our liquidity and repricing gap models, its assumptions, as well as incorporating global scenarios in our stress test models. This headway in liquidity and interest rate risk management is aligned with building our foundation of integrity and prudent risk management.

We continued to make strides in advancing our asset and liability management capabilities with the rollout of our fully automated ALM system. This robust risk engine ran countless scenario analyses under both static and dynamic balance sheet conditions. All these enhancements are executed by our team of highly talented risk officers with diverse experiences in market risk, dealing room risk, trading and treasury operations. With our market risk (for value-at-risk, calculations) and ALM risk systems fully operational, our team of MRM professionals is well equipped for an even more robust market risk management regime as the scale of our businesses continues to expand.

Operational and Information Technology Risk.

Our Operational and Information Technology Risk Management unit monitors risks arising from inadequate or failed internal processes, people, and systems (for example, fraud, product flaws, breakdowns in informational or physical safeguards) or from external events (natural disasters, electrical or telecommunication failures). Operational risks are embedded in all banking products and services, and may include risks that give rise to adverse legal, tax, regulatory, or reputational consequences. Information technology is a significant risk factor assumed in conjunction with operational risk, given the highly automated nature of the bank's processes and services. We define IT risk as the risk of any adverse outcome arising from the use of or reliance on information systems; as such, IT risk includes, but are not limited to, information security, service availability, reliability and availability of IT operations, completion-on-specification of IT development projects, and regulatory compliance pursuant to the Bangko Sentral's policy guidelines on *Information Technology Risk Management*.

The OITRM unit formulates policies, develops, and monitors KRIs, and oversees thoroughness of bank-wide risk and control self-assessments, loss incident management processes, and risk management awareness and appreciation programs. A significant resource and governance tool employed by the OITRM unit to perform its function are the bank's Business Risk Officers. We have several BROs embedded across the organization in key functional units, such as information systems, retail clients, corporate clients, financial products and services, asset management, global markets and centralized operations and services. The BROs are responsible to the OITRM for promoting a sound risk management culture, implementing operational and IT risk management best practices as determined by the OITRM unit, and ensuring timely submission of operational and IT risk reports. In addition to employing BROs, in 2014, the bank reinstated the operational and IT risk management committee to provide oversight over its OITRM unit, in accordance with regulatory requirements.

We manage our operational and IT risks by ensuring such risks are thoroughly identified, monitored, reported, and mitigated. We have defined clear responsibilities related to the performance of the risk management function, as well as the accountabilities, methods, and tools employed to identify and mitigate operational and IT risks in our operating units. We require operating units to undertake regular self-assessments to identify risks, assess the design of controls and the performance effectiveness of such controls. KRIs are used to monitor risk profiles, trigger early warning alerts, and instigate mitigating action. We measure loss incidents diligently, with specific guidelines and processes in place to ensure timely reporting, analysis of root cause and business impact, and speedy problem resolution.

Our risk management processes are ingrained in our new product development efforts. From inception to launch, new products are subject to design and testing activities aimed at safeguarding both the bank and our clients from the risk of economic loss, operational disruption, or compromise of personal or financial data. We are particularly diligent in this respect with our online products and services.

We are disciplined about disaster preparedness. To mitigate the impact of adverse events, we have in place business continuity and disaster recovery plans to ensure the recovery and availability of all critical customer-servicing infrastructure. To meet the increasing demand on business continuity preparedness of the bank's operations, we have also installed bigger and more robust BCP sites for critical head office services.

For information systems, the bank operates a secondary data center, which houses backup facilities that provide processing, memory, network, and storage infrastructure that allows the bank to operate its critical application systems. The secondary data center is located at a site significantly distant from the bank's primary data center. Furthermore, business units performing critical functions in the delivery of the bank's products, services, and channels have completed an annual testing of their respective BCPs. Our employees undergo continuous BCP training to promote awareness.

We are vigilant about physical and information security. To enhance our monitoring and reporting of information security risks, our enterprise information security management team is undertaking efforts to identify information assets and build an asset register, and to implement and conduct an information security risk assessment process methodology that identifies threats, vulnerabilities, and appropriate mitigating measures.

Our Central Security Office is responsible for the security of the bank's facilities and the overall safety of our customers and employees. Its main objectives are the protection of personnel and property, close monitoring and resolution of incidents, the rescue of personnel in distress, and the prevention and prosecution of crime. The CSO's mission is performed using a three-tiered defense system which comprises of intelligence, target hardening, and incident management. Cooperation with law enforcement agencies is encouraged whenever appropriate. In addition, a safety officer has been designated to be primarily responsible for the safety activities and requirements of the bank, including monitoring of threats that might impact adversely on the general well-being of bank operations.

We have adopted technologies which integrate the bank's alarms, access controls, and centralized closed circuit TV systems. To date, all branches are equipped with CCTVs and selected branches are connected to our central video and alarm monitoring system. Certain sensitive operational centers are also connected to this system, and monitored 24/7 at our centralized Security Operations Center.

We prepare extensively against risk of litigation or regulatory penalty. Our Legal Affairs and Dispute Resolution unit serves as our main legal resource. As such, it plays a critical preventive role by issuing legal advisory bulletins that highlight legal issues, new laws, and regulatory fiats that impact our products and services; and tax advisory bulletins that promote tax compliance and awareness of initiatives of the Bureau of Internal Revenue and other regulatory and legislative entities. This unit also provides training and seminars in support of its bulletins, and has an active documentation team that reviews all bank contracts.

Corporate Governance

Beyond its preventive role, our legal affairs unit plays a significant role in mitigating losses when the bank is involved in litigation. It handles all criminal, civil and administrative cases, that is, defensive cases filed by any party against the bank for any reason; cases filed on behalf of the bank to assert its rights and interests, claim for damages and/or to prosecute errant employees and other parties; and to recover or collect from delinquent borrowers. To expedite resolution of cases, the unit adopts innovative litigation techniques and alternative modes of dispute resolution, with the sole objective of protecting the rights and interests of the bank.

Model Risk. We continuously test the quality of our risk models. Our Risk Models Validation unit is responsible for conducting the independent model validation activities of the bank's risk and financial models. The independent validation of risk models is governed by the bank's model risk management policy and governance framework, aimed at ensuring an active and effective model risk management across the BPI Group.

Asset Management and Trust Risk. In 2014, we have also fully integrated the accountability of the risk management unit of the asset management and trust business under the auspices of the bank's Chief Risk Officer and the Risk Management Office. In so doing, we have enforced bank-wide standards on the unit's risk management policies and methodologies, KRIs, and reporting, altogether now under the purview with the bank's other self-assessment and control units.

Management of Risk Exposure

The bank uses various methodologies, tools, and systems to measure its risk exposure. Our credit risk exposures are assessed using internal credit risk rating models that take into account our existing exposure to the counterparty (by asset class), the counterparty's probability of default, and the value recoverable from the counterparty in the event of default. Credit risk rating and probability of default models are developed internally by our CPRM unit using statistical methods on quantitative and qualitative risk factors, including

credit judgment overlays—to account for borrower-specific and other factors that cannot be modeled statistically. Our models are independently validated, and their predictive power and performance are regularly monitored.

Credit risk exposures are classified and managed according to rating grades. Each rating grade has a corresponding probability of default that exponentially increases as a rated account moves from the best to the worst rating grade. The migration of accounts between rating grades is regularly monitored and analyzed. Loss provisioning also takes into account the rating grade of each exposure. While specific reserves are set up for defaulted exposures, provisioning for non-default exposures is based on expected loss, which is a function of the probability of default and loss given default (under standardized approach). Expected losses are constantly assessed and measured following our internal policies and the Bangko Sentral's regulatory provisioning policies.

In compliance with Basel and Bangko Sentral standards on minimum capital requirements, our CAR calculation is computed based on qualifying capital and risk-weighted assets. We also measure the bank's credit risk exposures in terms of regulatory capital requirement using the standardized approach. Using this method, our credit exposures to sovereigns, corporate and banks are risk-weighted to reflect credit assessment from eligible ratings agencies (Fitch, Moody's, Standard & Poors, and PhilRatings, where applicable). This method also allows for the use of eligible collaterals (cash, financial instruments, and guarantees) to mitigate credit risk. The bank ensures all documentation used in collateralized or guaranteed transactions are binding on all parties and legally enforceable in the relevant jurisdiction.

Using the Basel regulatory standardized approach, our total credit risk-weighted assets as of December 31, 2014 amounted to P757.0 billion, and are composed of on-book credit exposures after risk mitigation of P748.7 billion, off-balance sheet risk-weighted assets of P5.7 billion and counterparty risk-weighted assets in the trading book of P3.4 billion.

The table below provides a summary of our credit risk-weighted assets for 2014 and 2013:

CREDIT RWAS (P Mn)	AMOUNT	
	2014	2013
Total RWA (On-Balance Sheet) ^{0/}	748,720	612,242
Total RWA (Off-Balance Sheet) ^{0/}	5,664	6,475
Total Counterparty RWA (Banking Book) ^{1/}	37	-
Total Counterparty RWA (Trading Book)	3,374	2,312
Total RWA Credit-Linked Notes (Banking Book)	93	-
Total Gross RWA	757,888	621,029
Deductions: General Loan Loss Provision ^{2/}	(864)	(1,236)
Total Credit RWAs	757,024	619,794

^{0/} Risk-weighted assets (RWA)

^{1/} For derivatives and repo-style transactions; for 2014, the bank has HTM (Banking Book), with 50-percent risk weight, and P98-M credit equivalent amount (CEA)

^{2/} In excess of the amount permitted to be included in Upper Tier 2

The Bank's credit risk exposures on both on- and off-balance sheet assets after mitigation, broken down by risk buckets, for 2014 and 2013 are as follows:

Schedule A December 31, 2014

RWA (On-Balance Sheet) (P Mn)	Total Credit Risk Exposures after Risk Mitigation	Risk Weights						Total CRWA ^{1/}
		0 %	20 %	50 %	75 %	100 %	150 %	
Cash on hand	38,185	38,185	-	-	-	-	-	38,185
Checks and other cash items	293	-	293	-	-	-	-	293
Due from BSP	211,957	211,957	-	-	-	-	-	211,957
Due from other banks	21,594	-	6,999	14,447	-	148	-	21,594
Available-for-sale (AFS)	50,087	20,345	7,506	15,940	-	5,402	-	49,193
Held-to-maturity (HTM)	208,905	173,987	818	24,075	-	2,434	-	201,314
UDSCL ^{2/}	-	-	-	-	-	-	-	-
Loans and receivables	766,598	0	64,575	27,783	58,930	609,774	5,537	766,598
Loans and receivables - Others ^{3/}	501	501	-	-	-	-	-	501
Sales contract receivables	38	-	-	-	-	38	-	38
ROPA ^{4/}	4,344	-	-	-	-	-	4,344	4,344
Sub-Total	1,302,504	444,975	80,192	82,246	58,930	617,795	9,881	1,294,019
Other assets	13,685	-	-	-	-	13,685	-	13,685
Total exposures, plus other assets	1,316,189	444,975	80,192	82,246	58,930	631,480	9,881	1,307,704
Total risk-weighted OBSA (no CRM) ^{0/5/}	-	-	16,038	41,123	44,198	631,480	14,822	747,661
Total risk-weighted OBSA (with CRM) ^{5/}	-	-	219	706	-	134	-	1,059
Total RWA (On-Balance Sheet)	-	-	16,258	41,829	44,198	631,614	14,822	748,720

^{0/} On-balance sheet assets (OBSA)

^{1/} Credit risk-weighted assets

^{2/} Unquoted debt securities classified as loans

^{3/} Loans and receivables arising from repurchase agreements, certificates of assignment/participation with recourse, and securities lending and borrowing transactions

^{4/} Real and other properties acquired

^{5/} Not covered by, and covered by credit risk mitigants, respectively

Corporate Governance

December 31, 2013

RWA (On-Balance Sheet) (P Mn)	Total Credit Risk Exposures after Risk Mitigation		Risk Weights					Total CRWA ^{1/}
	0%	20%	50%	75%	100%	150%		
Cash on hand	25,502	25,502	-	-	-	-	-	25,502
Checks and other cash items	219	-	219	-	-	-	-	219
Due from BSP	244,547	244,547	-	-	-	-	-	244,547
Due from other banks	15,803	-	5,022	8,577	-	2,204	-	15,803
Available-for-sale (AFS)	89,960	68,045	5,416	10,015	-	5,385	-	88,862
Held-to-maturity (HTM)	95,702	68,237	73	16,204	-	2,267	-	86,781
UDSCL ^{2/}	431	-	-	-	-	-	431	431
Loans and receivables	608,003	4	37,268	36,830	41,192	487,113	5,596	608,003
Loans and receivables - Others ^{3/}	11,518	11,518	-	-	-	-	-	11,518
Sales contract receivables	78	-	-	-	-	67	11	78
ROPA ^{4/}	5,225	-	-	-	-	-	5,225	5,225
Sub-Total	1,096,988	417,853	47,998	71,625	41,192	497,036	11,264	1,086,969
Other assets	21,152	-	-	-	-	21,152	-	21,152
Total exposures, plus other assets	1,118,140	417,853	47,998	71,625	41,192	518,188	11,264	1,108,121
Total risk-weighted OBSA (no CRM) ^{5/}	-	-	9,600	35,813	30,894	518,188	16,896	611,391
Total risk-weighted OBSA (with CRM) ^{5/}	-	-	271	467	-	113	-	851
Total RWA (On-Balance Sheet)	-	9,870	36,280	30,894	518,302	16,896	612,242	

^{0/} On-balance sheet assets (OBSA)

^{1/} Credit risk-weighted assets

^{2/} Unquoted debt securities classified as loans

^{3/} Loans and receivables arising from repurchase agreements, certificates of assignment/participation with recourse, and securities lending and borrowing transactions

^{4/} Real and other properties acquired

^{5/} Not covered by, and covered by credit risk mitigants, respectively

SCHEDULE B

December 31, 2014

RWA (Off-Balance Sheet) (P Mn)	CEA ^{0/}	Risk Weights					Total CRWA ^{1/}	
		0%	20%	50%	75%	100%		
Direct credit substitutes ^{2/}	3,467	-	4	-	707	2,506	-	3,216
Transaction-related contingencies ^{3/}	869	-	-	-	16	848	-	864
Trade-related contingencies ^{4/}	1,613	-	0	-	87	1,497	-	1,584
Total RWA (Off-Balance Sheet)	-	4	-	809	4,851	-	5,664	

December 31, 2013

RWA (Off-Balance Sheet) (P Mn)	CEA ^{0/}	Risk Weights					Total CRWA ^{1/}	
		0%	20%	50%	75%	100%		
Direct credit substitutes ^{2/}	3,527	-	-	-	693	2,603	-	3,296
Transaction-related contingencies ^{3/}	1,667	-	-	-	61	1,586	-	1,647
Trade-related contingencies ^{4/}	1,553	-	1	-	58	1,473	-	1,531
Total RWA (Off-Balance Sheet)	-	1	-	812	5,662	-	6,475	

^{0/} Credit equivalent amount

^{1/} Credit risk-weighted assets

^{2/} Such as general guarantees of indebtedness and acceptances

^{3/} Such as performance bonds, bid bonds, warranties and stand-by LCs related to particular transactions

^{4/} Arising from movement of goods, such as documentary credits collateralized by the underlying shipments, and commitments with an original maturity of up to one (1) year

SCHEDULE C

December 31, 2014

Counterparty Assets Trading Book (P Mn)	CEA ^{0/}	Risk Weights					Total CRWA ^{1/}
		0%	20%	50%	100%	150%	
Derivative Exposures:							
Exchange Rate	5,717	-	99	2,259	669	-	3,027
Interest Rate	707	-	33	262	19	-	313
Credit Derivatives	67	-	-	34	-	-	34
Total Counterparty RWA ^{2/} of Derivative Transactions	-	132	2,555	688	-	3,374	

December 31, 2013

Counterparty Assets Trading Book (P Mn)	CEA ^{0/}	Risk Weights					Total CRWA ^{1/}
		0%	20%	50%	100%	150%	
Derivative Exposures:							
Exchange Rate	3,524	-	50	1,182	910	-	2,142
Interest Rate	364	-	23	123	1	-	148
Credit Derivatives	44	-	-	22	-	-	22
Total Counterparty RWA ^{2/} of Derivative Transactions	-	73	1,327	912	-	2,312	

^{0/} Credit equivalent amount

^{1/} Credit risk-weighted assets

^{2/} Risk-weighted assets (RWA)

Corporate Governance

As of end-2014, our total outstanding investment in structured products was \$155.0 million, composed of investments in credit-linked notes (53 percent), range accrual notes (32 percent) and collared floaters (15 percent). The bank's exposure on selling credit protection is limited to investments in CLNs.

We manage the market risk exposures of both our trading and non-trading portfolios. Our assets in both on- and off-balance sheet trading portfolios are subject to trading gains and losses. Market risk exposure from these portfolios is measured by VaR models. As part of the management of market risk, the bank undertakes various hedging strategies. The bank also enters into interest rate swaps to match the interest rate risk associated with fixed-rate long-term debt securities. In terms of capital usage using the standardized approach, total market risk-weighted assets stood at P25.6 billion as of end-2014, of which foreign exchange exposure accounted for more than half, followed by interest rate exposures and equity exposure, respectively.

The table below presents the breakdown of the bank's market risk-weighted assets for 2014 and 2013:

MARKET RWA (P Mn)	AMOUNT	
	2014	2013
Using Standardized Approach:		
Foreign Exposures	15,518	4,766
Interest Rate Exposures	8,811	3,194
Equity Exposures	1,238	565
TOTAL MARKET RWA	25,567	8,525

^{0/} Risk-weighted assets (RWA)

Our liquidity profile is observed and monitored using the minimum cumulative liquidity gap metric, which is computed monthly. MCLG measures net inflow levels of the bank. BPI, on a consolidated basis, should be liquid enough to provide sufficient buffer for critical liquidity situations. A red flag is raised should the MCLG projected within the next quarter breaches the RMC-prescribed MCLG limit.

Interest rate risk measurement is fundamental to our banking business. Movements in interest rates can expose the bank to adverse shifts in the level of net interest income and can impair the underlying values of its assets and liabilities. BPI is exposed to interest rate risk on unfavorable changes in the rate curves, which would have adverse effects on the Group's earnings and its economic value of equity. Interest rate risk exposure arising from the core banking activities is measured by:

- Earnings-at-risk (EaR), or the potential deterioration in net interest income over the next 12 months due to adverse movements in interest rates; and
- Balance Sheet Value-at-Risk (BSVaR), or the impact on the economic value of the future cash flows in the banking book due to changes in interest rates.

Our interest rate gap model is measured based on the repricing schedule of the balance sheet accounts. To illustrate, loans are mapped on either the maturity date (for accounts paying fixed interest rate) or next interest rate review date (for accounts paying floating interest rate). Meanwhile, for deposit accounts that do not have defined maturity dates (e.g. savings and current accounts), repricing schedules are derived through a study on the pattern of the bank's historical review of deposit rates and of the depositors' behavior.

As of end December 2014, the bank's BSVaR level (P2.0 billion) and EaR level (P90 million) were well within the bank's established risk appetite.

Our exposure to operational risks are identified, assessed, and monitored as an integral part of risk assessment processes. We currently use the Basel regulatory basic indicator approach to quantify operational risk-weighted assets, by using the historical total annual gross income as the main measure of risk. For the year 2014, the bank's total operational risk-weighted assets stood at P83.1 billion.

The table below shows the bank's operational risk-weighted assets for the years 2014 and 2013:

OPERATIONAL RWA (P Mn)	AMOUNT	
	2014	2013
Gross Income (a)	48,803	43,750
Capital Requirement ^{1/}	7,321	6,563
Average Capital Requirement (b) ^{2/}	6,649	6,179
Adjusted Capital Charge (c) ^{3/}	8,312	7,724
TOTAL OPERATIONAL RWA ^{4/}	83,117	77,237

^{0/} Risk-weighted assets (RWA)

^{1/} (a) multiplied by 15 percent

^{2/} Average of 15 percent of (a) for the past (3) years

^{3/} (b) multiplied by 125 percent

^{4/} (c) multiplied by factor 10

In 2014, we saw the increasing industry-wide trend in credit card fraud, particularly for the card-not-present fraud, and ATM/debit card skimming incidents, so the OITRM unit continued to closely monitor through established measurements and limits on risk indicators, and implemented mitigating measures. We have employed a real-time card fraud detection system that helped the bank significantly improve fraud detection, false positive

rates, and fraud case handling efficiencies. Furthermore, we continuously strengthened our security awareness program that provides our customers with relevant information about the risks associated with online and other banking transactions.

As part of the initiatives to advance risk management methodologies, the bank's OITRM unit has begun stress testing through scenario analysis to support the internal capital assessment for operational and IT risks. Through a series of stress scenarios, OITRM is able to identify, analyze, and assess the impact of unexpected and severe operational risk events. This exercise ensures that the impact of high severity events are captured during risk assessment, especially those not yet reflected in the bank's existing historical loss data.

Capital Adequacy

Our Strategic and Corporate Planning Division oversees the management of the bank's capital adequacy. Capital adequacy ratio is the ratio of the bank's total qualifying capital to the standard risk weights assigned to the bank's assets, and it measures the capability of its capital funds to cover its various business risks. This division also ensures compliance with regulatory and internal minimum capital adequacy requirements, referred to as the bank's internal minimum CAR, or IMCAR, and the CAR management action trigger, or CARMAT, which incorporates the bank's internal capital buffers and limit trigger, and captures risks beyond Pillar 1 risks (credit, market, and operational). Furthermore, as the central planning unit of the bank, this division is responsible for raising all strategic capital needs of the bank, as well as initiating approvals for dividend payments to shareholders.

Corporate Governance

BPI submits an Internal Capital Adequacy Assessment Process, or ICAAP, document annually to the Bangko Sentral, in full accordance with the Basel-Pillar II guidelines.

As of December 31, 2014, BPI's solo (parent) and consolidated CAR stood at 13.56 percent and 14.85 percent respectively, well within the regulatory requirement of 10.0 percent, and above the bank's internally set IMCAR and CARMAT. The bank's solo and consolidated common equity tier 1 capital at 12.69 percent and 13.97 percent, respectively, compare favorably with regulatory CAR, IMCAR and CARMAT.

The bank's total qualifying capital for the years ended 2014 and 2013 were P128.5 billion and P96.7 billion, respectively. This year's qualifying capital grew at a significant rate owing to a P25-billion rights issue completed in February 2014.

The bank's total qualifying capital for 2014 and 2013 were largely composed of CET1 capital and Tier 1 at 93.7 percent and 95.2 percent, respectively.

The table below sets out the bank's CAR components for 2014 and December 2013:

Risk (P Mn)	Regulatory Capital	
	2014	2013
Credit Risk	75,702	61,979
Market Risk	2,557	853
Operational Risk	8,312	7,724
TOTAL	86,571	70,556

Capital Adequacy	Amount (P Mn)	
	2014	2013
CET1/Net Tier1 ^{1/}	120,940	92,007
Tier2/Net Tier2 ^{2/}	7,579	4,648
Total QC ^{3/}	128,519	96,655
Total CRWA ^{4/}	757,024	619,794
Total MRWA ^{5/}	25,567	8,525
Total ORWA ^{6/}	83,117	77,237
TRWA ^{7/}	865,708	705,556
Consolidated Ratios (%)		
CAR	14.85	13.70
CET1/Tier 1	13.97	13.04
Solo (Parent) Ratios (%)		
CAR	13.56	12.15
CET1/Tier 1	12.69	12.15

^{1/} Common Equity Tier 1 Capital/Net Tier 1

^{2/} Tier 2 Capital/Net Tier 2

^{3/} Qualifying Capital

^{4/} Credit risk-weighted assets

^{5/} Market risk-weighted assets

^{6/} Operational risk-weighted assets

^{7/} Total risk-weighted assets

The next table shows the composition of the bank's capital structure and total qualifying capital.

Total Gross Qualifying Capital Breakdown

Capital Structure (P Mn)	December 31, 2014			December 31, 2013		
	CET1 /Tier 1	Tier 2	TOTAL	Tier 1	Tier 2	TOTAL
Core Capital	139,604	7,579	147,183	103,443	6,257	109,700
Paid-up common stock	39,272	-	39,272	35,564	-	35,564
Additional paid-in capital	29,260	-	29,260	8,235	-	8,235
Retained Earnings	56,433	-	56,433	41,716	-	41,716
Undivided profits	18,538	-	18,538	18,007	-	18,007
Net unrealized gains or losses on AFS securities	(4,013)	-	(4,013)	-	-	-
Cumulative foreign currency translation	(278)	-	(278)	(213)	-	(213)
Minority interest ^{1/}	391	-	391	133	-	133
Net unrealized gains on AFS equities ^{2/}	-	-	-	-	47	47
General loan loss provision ^{3/}	-	7,579	7,579	-	6,210	6,210
Deductions	18,664	-	18,664	9,826	-	9,826
Net unrealized losses on AFS equities ^{4/}	-	-	-	20	-	20
Total O/S unsecured credit accommodations ^{5/}	1,937	-	1,937	1,930	-	1,930
Total O/S unsecured loans ^{6/}	1,766	-	1,766	-	-	-
Deferred tax ^{7/}	6,644	-	6,644	7,877	-	7,877
Other intangible assets	2,045	-	2,045	-	-	-
Defined benefit pension fund assets (liabilities)	10	-	10	-	-	-
Investments in equity ^{8/}	1,960	-	1,960	-	-	-
Significant minority investments ^{9/}	2,567	-	2,567	-	-	-
Other equity investments ^{10/}	1,735	-	1,735	-	-	-
Gross Qualifying Capital	120,940	7,579	128,519	93,616	6,257	99,873
Required deductions ^{11/}	-	-	-	(1,609)	(1,609)	(3,218)
TOTAL QUALIFYING CAPITAL	120,940	7,579	128,519	92,007	4,648	96,655
% to Total	94%	6%	100%	95%	5%	100%

^{1/} For 2014, minority interest in subsidiary banks, which are less than wholly-owned (for consolidated basis)

^{2/} For 2013, minority interest in subsidiary financial-allied undertakings, which are less than wholly-owned (for consolidated basis)

^{3/} Net unrealized gains on available for sale equity securities purchased (subject to a 55-percent discount)

^{4/} General loan loss provision, limited to a maximum of 1 percent of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio

^{5/} Net unrealized losses on available for sale equity securities purchased

^{6/} For 2014, total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI); for 2013, total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI (net of specific provisions, if any), and unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates (net of specific provisions, if any) per BSP Circular 560

^{7/} Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates

^{8/} For 2014, deferred tax assets. For 2013, deferred income tax (net of allowance for impairment, if any)

^{9/} Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases)

^{10/} Significant minority investments (10-50 percent of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases)

^{11/} Other equity investments in non-financial allied undertakings and non-allied undertakings

^{12/} Investments in equity of unconsolidated subsidiary securities dealers/brokers, insurance companies, and non-financial allied undertakings, after deducting related goodwill, if any (for both solo and consolidated bases)

Corporate Governance

A summary of our CAR is set forth in our audited financial statements, attached herewith, under Note 3.7 (Capital Management). Computation of the bank's CAR in the AFS was primarily based on the CAR reporting template provided by Bangko Sentral Circular No. 538.

In preparation for the phased-in implementation of Basel III capital and liquidity reforms by the BSP effective January 2014 and moving forward, the bank has performed quantitative impact studies on credit value adjustment for Treasury credit instruments and asset correlation, and identified the transition and implementation plans to be able to meet the revised minimum capital requirements prescribed by the Basel regime. Key officers of the bank have had in-depth and relevant training on risk management best practices and other Basel III-related topics.

Related Party Transactions

In the normal course of business, the bank transacts with related parties which consist of its directors, officers, stockholders and related interest, subsidiaries and affiliates (including those under the Ayala group of companies), as well as other related parties (as defined in the bank's internal policy) who may have a significant influence in a transaction.

These transactions involve credit and non-credit exposures such as borrowings, guarantees, agreements for the periodic provision of leases or other services, asset purchases and sales, derivative transactions, trust transactions, investments, and the purchase or sale of goods. The bank invests significant effort in ensuring that transactions with related parties are normal banking activities and are done at arm's length, particularly, on terms and conditions comparable to those offered to non-related parties or to similar transactions in the market. The bank is committed to ensure strict compliance with laws, regulations and reporting requirements relating to DOSRI and related party transactions. The board has a Related Party

Transactions Committee, consisting of four directors and headed by an independent director, to vet all related party transactions crossing certain thresholds of materiality. The committee is supported by the RPT Vetting unit of the RMO, which is responsible for the coordination and documentation of transactions of the recommending business units prior to submission to the RPTC.

The bank's Chief Audit Executive and Chief Compliance Officer also sit as non-voting members of the RPTC and perform post-reviews to ensure proper implementation of related party transactions.

Regulatory Compliance

Our Compliance Office is charged with nurturing the bank's culture for integrity, ethical business practice, and fair dealing. It is directly accountable to the bank's Audit Committee. While we are interested in compliance with regulations that impact us—in particular, those of the Bangko Sentral, Securities and Exchange Commission, and the Philippine Deposit Insurance Corporation—we value most our reputation and the fact that we are trusted by our shareholders, our clients, our employees, our partners, and members of our community.

The Compliance Office oversees the implementation of the bank's enterprise-wide compliance programs. The programs take into account the size and complexity of the bank, the relevant rules and regulations that affect its operations, and the business risks that may arise due to non-compliance. By using regulatory and self-assessment compliance matrices, compliance measures are formulated to mitigate identified business risks and tested to ensure effectiveness.

The Compliance Office is also supported by the accountability of 14 Group Compliance Coordinating Officers who are embedded in the operational units throughout the bank. The GCCOs are charged with enforcing Compliance Office initiatives, as well as providing timely reports to the Compliance Office.

The bank has implemented a three-layered compliance testing and monitoring process, which include:

1. Unit self-assessment testing, conducted by GCCOs;
2. Independent random testing, performed by the Compliance Office; and
3. Independent periodic review by the bank's Internal Audit unit, whose results are reported regularly to the bank's Audit Committee.

Compliance to the bank's corporate governance manual, policies, and code of conduct is enforced through self-regulation within the business units, and independent reviews conducted by the Compliance Office and Internal Audit. Results of these reviews are elevated to the bank's Corporate Governance Committee.

The Compliance Office promotes adherence and awareness to laws, rules and regulations by electronically posting information and documents in a compliance database that is accessible to all employees. Regular meetings are conducted by the Compliance Office with the GCCOs to discuss the impact of new regulations, decide on the required compliance measures and amend compliance matrices as necessary. Through continued liaison and dialogue with regulators, the Compliance Office ensures the prompt dissemination of new regulations and other developments affecting bank operations.

Anti-Money Laundering

We place great significance on the prevention of financial crimes, as they pose a significant threat to our reputation. Under the purview of the Compliance Office, the bank's Anti-Money Laundering Unit is responsible for monitoring customer and counterparty transactions in compliance with the Anti-Money Laundering Law, its implementing rules and regulations, and Bangko Sentral Circular 706. Developed under the guidance of the Bangko Sentral's Money Laundering and Terrorist Financing Prevention

Program, the bank's anti-money laundering program covers all its subsidiaries and affiliates.

Our program aims to implement sound anti-money laundering practices and combat terrorist financing and other financial crimes. It consists of:

1. Conscientious customer due diligence and know-your-customer, or KYC, processes;
2. Technology and automated tools to identify and detect financial transactions of a suspicious nature;
3. Monitoring, periodic review, and timely reporting of anti-money laundering-counteracting financing of terrorism events to senior management and the Board;
4. Regular and effective AML-CFT training and awareness programs for all personnel;
5. Maintenance of customer data and transaction documents within prescribed timelines; and,
6. Timely updates of policies and procedures in accordance with changes in regulations and AML and CFT typologies.

We constantly review our program to ensure compliance with the latest legislative and regulatory developments. The bank's specialized IT system captures information required for covered transaction reports, and detects suspicious transaction patterns for reporting to the Anti-Money Laundering Council. To promote awareness, knowledge and understanding of AML concepts, principles and requirements, all employees are required to attend training programs conducted by the bank's AML unit or complete our eLearning courses.

FATCA

The bank values its ability to transact efficiently in U.S. dollars. In compliance with the Foreign Account Tax Compliance Act of the United States, the Compliance Office established a FATCA Compliance Unit to ensure the consistent and effective compliance with FATCA regulations

Corporate Governance

throughout the bank and its subsidiaries. FATCA is a U.S. tax regulation designed to improve tax compliance by U.S. persons who maintain accounts in non-U.S. financial institutions or who transact with non-U.S. entities. Under its rules, the bank and some of its identified subsidiaries and affiliates are required to register with the United States Internal Revenue Service as participating foreign financial institutions in order to prevent the imposition of a 30-percent withholding tax on income received from the U.S. The registration of the bank and its covered subsidiaries and affiliates with the IRS was completed in April 2014.

As required under the rules of FATCA, a Responsible Officer has been appointed to oversee the bank's compliance with regulations, establish a program to ensure its effective implementation and accomplish certain certifications with the IRS. The FATCA compliance program provides for additional requirements on customer due diligence and documentation and new reporting guidelines to the relevant tax authorities.

Internal Audit

Our Internal Audit unit is an independent body that evaluates the effectiveness of the bank's risk management, internal controls, and governance processes, as well as ensures that operating and business units adhere to internal processes and procedures and to regulatory and legal requirements. Internal Audit reports directly to the Board through its Audit Committee. It also works closely with the Risk Management Office, Compliance Office, external auditors, and other oversight units for a comprehensive review of risks and compliance in the institution, and ensures that business units proactively manage the risk and compliance exposures.

Internal Audit has an established quality assurance and improvement program to ensure that audit activities conform to the *International Standards for the Professional Practice of Internal Auditing*. The program includes periodic

internal and external quality assessments and ongoing monitoring of the performance of the internal audit activity. Periodic internal assessments are conducted annually, while external quality assessments are conducted at least once every five years by a qualified independent validator. Internal Audit maintains its "generally conforms" ratings on both internal and external assessments, which indicate that its activities have continuously conformed with professional standards, code of ethics, and other internal standards.

Internal Audit continuously improves the capabilities of its auditors through continuous education on auditing techniques, regulations, and banking products and services.

Conflict-of-Interest Policy

We do not tolerate those who place their interest above that of our institution, our clients, or our business partners. We have in place conflict-of-interest policies that elevate the interest of the bank above that of the personal interests of directors, officers, and employees. These policies prohibit directors, officers, and employees from using their position of authority or rank to directly or indirectly derive personal gain or advantage.

Insider Trading Policy

The bank has an insider trading policy which prohibits its directors, officers, employees, and other parties who are considered to have knowledge of material facts that have not been disclosed to the public, including any information that will likely affect the market price of BPI's securities or BPI clients' securities, from buying or selling these securities for their own personal account.

Whistleblower Policy

The bank supports a whistleblower program, an important mechanism for preventing and detecting fraud or misconduct, and enabling fast and coordinated incident responses as we establish cause, remedial actions, and damage control procedures. The bank remains committed

to integrity and ethical behavior by helping to foster and maintain an environment where all personnel can act appropriately without fear of reprisal and be treated with utmost confidentiality. A separate and distinct reporting and investigation process beyond the normal reporting lines are in place. Any violation of the bank's policies and procedures may be reported in writing, in person or through a dedicated and confidential BPI e-mail that has been established for this purpose.

Conflict-of-interest, insider trading, and whistleblower policies and guidelines are included in the bank's *Management and Operating Manual* and *Personnel Policy Manual*, each of which is recorded in electronic databases readily accessible for guidance of our employees. Aside from availability in these databases, our policies are regularly announced via internal email-facility to ensure constant top-of-mind awareness of the need to comply with these policies.

Communication and Information

Management is primarily responsible to the Board for the adequate flow of information, such as but not limited to financial information. Any variance between projections and actual results requires management's explanation to the Board.

The Board is committed to fully disclose at all times all material information about the bank for the benefit of the shareholders. All material information that could potentially affect the bank's share price is publicly disclosed in a timely manner through the PSE and SEC. Additionally, we hold meetings, briefings, and conferences for investors, analysts, and members of the media.

More information on BPI's corporate governance philosophy, policies and practices may be found in our website, www.bpiexpressonline.com.



JAIME AUGUSTO ZOBEL DE AYALA

Board of Directors

JAIME AUGUSTO ZOBEL DE AYALA Chairman

55 years old, Filipino, has been the Chairman of the Board of the Bank of the Philippine Islands since 2004, and has been a member of the Board since 1990. He was also Vice Chairman of the Board from 1995 to March 2004. He is currently the chairman of the Executive Committee and member of the Nomination Committee. Mr. Zobel de Ayala is also the Chairman of the Board of BPI Family Savings Bank and BPI Capital.

Mr. Zobel de Ayala has been a director of Ayala Corporation since May 1987, becoming Chairman and CEO in April 2006. He holds the following positions in publicly listed companies: Chairman of Globe Telecom and Integrated Micro-Electronics, and Vice Chairman of Ayala Land and Manila Water. He is also the Co-Chair of Ayala Foundation; Vice Chairman, AC Energy Holdings; Chairman, Harvard Business School Asia-Pacific Advisory Board; Vice Chairman, Makati Business Club; member, Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, and Endeavor Philippines; and a Philippine representative to APEC Business Advisory Council.

Mr. Zobel de Ayala obtained his BA Economics, *cum laude*, from Harvard College in 1981, and his MBA from the Harvard Graduate School of Business Administration in 1987.



CEZAR P. CONSING

CEZAR P. CONSING

Director, President & Chief Executive Officer

55 years old, Filipino, became President and CEO of Bank of the Philippine Islands on April 18, 2013. He served as a member of BPI's Board between February 1995 and January 2000, and from August 2004 to January 2007. He most recently rejoined the Board in April 2010. Currently, he serves as Chairman of the bank's Credit Committee and is a member of the bank's Executive, Trust, Retirement & Pension, and Risk Management committees.

He also serves as Chairman of BPI Direct Savings Bank, BPI Europe PLC, BPI Globe BankO, BPI Century Tokyo and Lease Finance Corporation, and BPI Computer Systems Corporation. He serves as Vice Chairman of BPI Capital Corporation and BPI Foundation. He also serves as board director of BPI Family Savings Bank, BPI/MS Insurance Corporation, and BPI-Philam Life Assurance Corporation.

Mr. Consing is a Senior Managing Director of Ayala Corporation and a member of the Board of Partners of The Rohatyn Group, an international asset management firm. He is also a member of the board of directors of National Reinsurance Corporation of the Philippines and LGU Guarantee Corporation. Since June 2010, he has served as an independent board director of Jollibee Foods Corporation. He is a board director of Filgifts.com, Sqreem Technologies Private Ltd. and Endeavor Philippines.

Mr. Consing joined BPI as a full-time employee in 1980, and worked in its corporate planning and corporate banking departments. In 1985, he was seconded to J.P. Morgan & Co., then the second largest shareholder of BPI. Over a 19-year career with J.P. Morgan in Hong Kong and Singapore, Mr. Consing focused on loan origination and syndication, capital markets, and mergers and acquisitions. He was responsible for all of J.P. Morgan's banking business in the Philippines, then in Southeast Asia and ultimately, the Asia Pacific region (excluding Japan). From 1994 to 2004, he was President of J.P. Morgan Securities (Asia Pacific) Ltd.

Prior to re-joining BPI in 2013, Mr. Consing was a Partner at TRG, headed its Hong Kong office, and was responsible for TRG's private equity businesses in Asia, which include Arch Capital Management Co., a real estate investment firm, and Capital Advisors Partners Asia, an infrastructure investment firm. Between 2007 and 2012, TRG owned a 40-percent stake in Premiere Development Bank, where he served as chairman of its Executive Committee. Between 2004 and 2013, Mr. Consing served as an independent director of CIMB Group Holdings Bhd and CIMB Group Sdn Bhd, together one of the largest universal banking institutions in Southeast Asia. Between 2005 and 2013, he served as an independent director of First Gen.

Mr. Consing is a member of the Board of Advisors of De la Salle University. Between 2003 and 2009, he was a member of the Board of Directors of the Asian Youth Orchestra. He is currently a member of the Trilateral Commission, a global think tank.

Mr. Consing received an AB Economics degree, *magna cum laude*, from De La Salle University in 1979. In 1980, he obtained an MA in Applied Economics from the University of Michigan, Ann Arbor.

FERNANDO ZOBEL DE AYALA

Director

54 years old, Filipino. Since April 2013, Mr. Fernando Zobel de Ayala has been Vice Chairman of the bank, and has been a member of the Board since 1994. He is the Chairman of the Personnel & Compensation committee, Vice Chairman of the Executive Committee, and member of the Nomination and Trust committees. He is also the Chairman of the Board of Trustees of BPI Foundation.

Mr. Zobel de Ayala has been a director of Ayala Corporation since May 1994, becoming President and Chief Operating Officer in April 2006. He is the Chairman of Ayala Land and Manila Water, and director of Globe Telecom and Integrated Micro-Electronics. He is also the Chairman of AC International Finance, AC Energy



FERNANDO ZOBEL DE AYALA



OCTAVIO V. ESPIRITU, MERCEDITA S. NOLLEDDO and AURELIO R. MONTINOLA III

Holdings, and Hero Foundation; Co-Chairman of Ayala Foundation; director of Livett Investments, Ayala International Holdings Limited, Honda Cars Philippines, Isuzu Philippines, Pilipinas Shell Petroleum, Manila Peninsula, and Habitat for Humanity International; member of the INSEAD East Asia Council, and World Presidents' Organization; chairman of Habitat for Humanity's Asia-Pacific capital campaign steering committee; and member of the Board of Trustees of Caritas Manila, Pilipinas Shell Foundation, Kapit Bisig para sa Ilog Pasig Advisory Board, National Museum and the foundation of the Roman Catholic Church.

Mr. Fernando Zobel de Ayala obtained his BA Liberal Arts from Harvard College in 1982.

VIVIAN QUE AZCONA

Director

59 years old, Filipino, is the President of the Mercury Group of Companies and its subsidiary, Mercury Drug. In April 2014, she was elected director of the bank, where she serves as member of the Nomination, and Personnel & Compensation committees.

Ms. Azcona is also President of Mercury Drug Foundation. She is a Vice President of the Philippine Retailers Association, and is also a member of the Philippine Pharmacists Association for which she has served as an officer and director.

A registered pharmacist, Ms. Azcona received her BS Pharmacy degree, *cum laude*, from the University of Santo Tomas in 1977. She also graduated from the Basic Management Program of the Asian Institute of Management in 1978.



VIVIAN QUE AZCONA

ARTEMIO V. PANGANIBAN

ROMEO L. BERNARDO

Independent Director

60 years old, Filipino. Mr. Bernardo served as a member of the bank's Board of Directors from February 1998 to April 2001. He was elected as an independent director in August 2002. He is the Chairman of the Nomination committee, and a member of the Corporate Governance, Personnel & Compensation, Risk Management, Trust, and Related Party Transaction committees. Mr. Bernardo also sits as independent director of BPI Family Savings Bank, BPI Capital, BPI Direct Savings Bank, BPI/MS Insurance, BPI Globe BankO, BPI-Philam Life Assurance, and Philippine Investment Management.

Mr. Bernardo is an independent director of the following listed companies: Aboitiz Power, National Reinsurance Corporation of the Philippines, Globe Telecom and RFM Corporation. He is the Chairman of the Board of Directors of Ayala Life Fixed-Income Fund Peso, Dollar, Growth, Money Market and Euro Bond Funds and Philippine Stock Index Fund; Vice Chairman and founding fellow of the Foundation for Economic Freedom; President and Managing Director of Lazaro Bernardo Tiu & Associates; member of the Board of Governors of the Management Association of the Philippines; and advisor of Global Source/N.Y.

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



DOLORES B. YUVIENCO

XAVIER P. LOINAZ



OSCAR S. REYES

ASTRID S. TUMINEZ



**REBECCA G. FERNANDO, ANTONIO JOSE U. PERIQUET
and ROMEO L. BERNARDO**

OCTAVIO V. ESPIRITU
Independent Director

71 years old, Filipino, has been a member of the bank's Board since April 2000. Mr. Espiritu is currently Chairman of the Risk Management and Related Party Transaction committees, and a member of the Audit Committee.

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

Mr. Espiritu is currently the Chairman of GANESP Ventures, and member of the Board of Directors of International Container Terminal Services, Philippine Dealing System Holdings Corporation and Subsidiaries; Philippine Stratbase Consultancy, and Netvoice.

He graduated with an AB Economics degree from the Ateneo de Manila University in 1963 and obtained his MA Economics degree from the Georgetown University in 1966.

REBECCA G. FERNANDO
Director

66 years old, Filipino, served as director of the bank from 1995 to 2007. In 2009, Ms. Fernando was re-elected director of the bank, where she is a member of the following committees: Executive, Trust, Related Party Transaction, and Retirement & Pension committees. She is a member of the Board of Directors of BPI Capital and BPI Family Savings Bank, and Chairman of LAIKA Intertrade Corporation. She is the financial consultant and a member of the finance boards of The Roman Catholic Archbishop of Manila and The Roman Catholic Archbishop of Antipolo.

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

XAVIER P. LOINAZ
Independent Director

71 years old, Filipino. From 1982 to 2004, Mr. Loinaz served as President of the Bank of the Philippine Islands, where he has been a member of the Board of Directors since 1982. He is the Chairman of the Audit Committee, and member of the Nomination committee. He is an independent director of BPI Family Savings Bank, BPI/MS Insurance, and Ayala Corporation. He was the President of the Bankers Association of the Philippines from 1989 to 1991.

Mr. Loinaz is the Chairman of the Board of Alay Kapwa Kilusan Pangkalusugan, XPL Manitou Properties; Vice Chairman of XPL MTJL Properties; and member of the Board of Trustees of E. Zobel Foundation.

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

AURELIO R. MONTINOLA III
Director

63 years old, Filipino. Mr. Montinola served as President and CEO of BPI from 2005 to 2013. He was the President of the Bankers Association of the Philippines for four years, and of the Chamber of Thrift Banks for a year. He is a member of the bank's Executive, Audit, Risk Management, and Personnel & Compensation committees.

Mr. Montinola is currently the Chairman of Far Eastern University and Vice Chairman of the Philippine Business for Education. He is a director of BPI Family Savings Bank, BPI Capital, BPI Globe BankO, and BPI Europe PLC. He is also the

Chairman of BPI/MS Insurance, BPI-Philam Life Assurance, FEU East Asia Education Foundation, Amon Trading, and Lafarge Republic. He is a member of the Board of the Management Association of the Philippines, and trustee of the Makati Business Club and WWF Philippines.

He has been the recipient of the Management Man of the Year 2012 award from the MAP, Asian Banker Leadership Award, Legion d'Honneur (Chevalier) from the French government.

Mr. Montinola obtained his MBA in 1977 from the Harvard Business School and BS Management Engineering in 1973 from the Ateneo de Manila University.

MERCEDITA S. NOLLEDO
Director

73 years old, Filipino. Ms. Nolleddo has served as director of BPI since 1991. She is the Chairman of the Trust and Retirement & Pension committees, and member of the Executive and Corporate Governance committees. Ms. Nolleddo is the Chairman of the Board of BPI Investment Management, and a director of BPI Family Savings Bank and BPI Capital.

Ms. Nolleddo is a director of Ayala DBS Holdings, Ayala Land Commercial REIT, Michigan Holdings, Anvaya Cove Beach and Nature Club, Honda Cars Cebu, Honda Cars Makati, Isuzu Automotive Dealership, Isuzu Cebu, Ayala Automotive Holdings, and Prime Initiatives. She is a member of the Board of Trustees of Ayala Foundation and BPI Foundation. She is Vice President of Sonoma Properties. She also served as director of Ayala Corporation from 2004 to September 2010.

Ms. Nolleddo graduated with the degree of Bachelor of Science in Business Administration major in Accounting from the University of the Philippines in 1960 and topped the CPA exams (second place) in the same year. In 1965, she finished Bachelor of Laws degree also from the University of the Philippines; she topped the Bar exams (second place) that same year.

ARTEMIO V. PANGANIBAN
Independent Director

78 years old, Filipino. Former Chief Justice of the Supreme Court of the Philippines, Mr. Panganiban was elected independent director of Bank of the Philippine Islands (BPI) on April 15, 2010. He is the Chairman of the Corporate Governance committee.

Mr. Panganiban is an independent director of the following listed corporations: Manila Electric Company, Petron, First Philippine Holdings, Metro Pacific Investment Corporation, Robinsons Land, GMA Network, GMA Holdings, Asian Terminals, and Philippine Long Distance Telephone Company.

He also holds the following positions: Chairman, Board of Advisers, College of Law of the University of Asia and the Pacific; non-executive director, Jollibee Foods Corporation; adviser, Double Dragon Properties Corporation; senior adviser, V. Mapa Blue Falcon Honor Society and Metropolitan Bank and Trust Company; Chairman, Board of Advisers, Metrobank Foundation and Asian Institute of Management Ramon V. Del Rosario Sr.-C.V. Starr Center for Good Corporate Governance; Chairman Emeritus, Philippine Dispute Resolution Center; President, Manila Metropolitan Cathedral-Basilica Foundation; member, Board of Advisers, De La Salle University College of Law and Johann Strauss Society; member, Advisory Board of The World Bank (Philippines); Chairman, Board of Trustees, Foundation for Liberty and Prosperity; and member, Board of Trustees, Tan Yan Kee Foundation. He is also a columnist of the Philippine Daily Inquirer and a member of the Philippine National Committee of the Asean Law Association.

From 1995 to 2006, Mr. Panganiban held various government posts, including Associate Justice of the Supreme Court, chairman of the Presidential Electoral Tribunal, Judicial and Bar Council, Philippine Judicial Academy and House of Representatives Electoral Tribunal and Member of the Senate Electoral Tribunal.

Mr. Panganiban graduated with the degree of Bachelor of Laws, *cum laude*, from Far Eastern University in 1960 and obtained his Doctor of Laws *honoris causa*

from various universities, including the University of Iloilo (1997), Far Eastern University (2002), University of Cebu (2006), Angeles University (2006), and Bulacan State University (2006).

ANTONIO JOSE U. PERIQUET
Independent Director

53 years old, Filipino. Mr. Periquet has been an independent director of the bank since April 2012. He is Vice Chairman of the Trust Committee, and member of the Executive and Risk Management committees. He is also an independent director of BPI Capital Corporation and BPI Family Savings Bank.

Mr. Periquet is the Chair of Board of Directors of Pacific Main Holdings and Campden Hill Advisors. He is currently an independent director of ABS-CBN Holdings, ABS-CBN Corporation, Ayala Corporation, DMCI Holdings, Max's Group of Companies and Philippine Seven Corporation. He is also a member of the Board of Trustees of the Lyceum University of the Philippines.

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

OSCAR S. REYES
Director

68 years old, Filipino. Mr. Reyes is the President and Chief Executive Officer of the Manila Electric Company. Mr. Reyes has been a director of the Bank of the Philippine Islands since April 2003. At the bank, he is a member of the Audit, Corporate Governance, Personnel & Compensation, and Related Party Transaction committees.

Mr. Reyes is a member of the Advisory Board of the Philippine Long Distance Telephone Company, and of the Board of Directors of Manila Water Company, PLDT Communications and Energy Ventures, Basic Energy Corporation, Cosco Capital, and Sun Life Financial Phils., Clark Electric Distribution, and Republic Surety & Insurance Co., among other firms.

At Meralco, he also serves as director. He is President of Meralco PowerGen Corporation and chairman of Pepsi Cola Products Philippines, Meralco Industrial Engineering Services Corporation, CIS Bayad Center, Meralco Energy, Redondo Peninsula Energy, and Pacific Light Pte. Ltd.

Mr. Reyes obtained his BA Economics, *cum laude*, from the Ateneo de Manila University in 1965 and MBA (academic units completed) from the Ateneo Graduate School of Business Administration in 1971. He completed the Program for Management Development from the Harvard Business School in 1976, and the Commercial Management Study Program at the Lensbury Centre, Shell International Petroleum Co., United Kingdom. He took up Business Management Consultants and Trainers Program at the Japan Productivity Center/Asian Productivity Organization in 1968, and the International Management Development Program leading to Diploma in Business Administration and Certificate in Export Promotion at the Waterloo University, Ontario, Canada in 1969-1970.

ASTRID S. TUMINEZ
Independent Director

50 years old, Filipino. Ms. Tuminez joined the bank as an independent director in December 2013. She is a member of the Risk Management, Corporate Governance, and Management committees of the bank.

Dr. Tuminez joined Microsoft in October 2012 as its Regional Director of Legal and Corporate Affairs in Southeast Asia, responsible for driving government relations, corporate citizenship, and business and regulatory initiatives in the Asean countries as well as Sri Lanka, Bangladesh, Nepal and Bhutan.

Dr. Tuminez is also an Adjunct Professor, the former Vice Dean (Research) and Assistant Dean (executive education) of the Lee Kuan Yew School of Public

Policy (National University of Singapore), 2008-present. From 2003 to 2007, at the U.S. Institute of Peace, she assisted in advancing peace negotiations between the Philippine government and the Moro Islamic Liberation Front. She was also a Senior Advisor to the Salzburg Global Seminar (2006), Executive Associate and then Director of Research for Alternative Investments at AIG Global Investment (1999-2003), a Consultant to The World Bank and an institutional sales/research professional at Brunswick Warburg (1998).

In 1989-1992, she worked with the Harvard Project on Strengthening Democratic Institutions, eventually running operations in Moscow, Russia, where she worked with leading reformers like Eduard Shevardnadze and Mikhail Gorbachev. In 1992-1998, she was a research associate and, later, program officer at the Carnegie Corporation of New York, focusing on grant-making in democratization, conflict prevention, and non-proliferation of weapons of mass destruction. She is a member and former adjunct fellow of the Council on Foreign Relations in New York City, and is the author of the book, *Russian Nationalism Since 1856. Ideology and the Making of Foreign Policy* (2000) and other scholarly publications, reports and opinion pieces.

In 2013, the Filipina Women's Network of the U.S. selected Dr. Tuminez as a recipient of their "Global Influencer Award." Her educational background includes a BA with a double major in Russian Literature and International Relations from Brigham Young University; a Master's in Soviet Studies from Harvard University (1988); and a Ph.D. in Political Science from the Massachusetts Institute of Technology.

DOLORES B. YUVIENCO
Director

66 years old, Filipino, was elected director of BPI in April 2014. She is a member of the Audit and Corporate Governance committees.

Ms. Yuvienco joined the Bangko Sentral (formerly known as Central Bank of the Philippines) in April 1972 as Senior Executive Assistant-Office of the Governor. She transferred to the Bangko Sentral's supervision and examination sector in 1975 and moved up the organization until she retired as Assistant Governor at the Bangko Sentral in March 2013.

While working at the supervision and examination sector, she participated in the crafting of major policies on banking supervision, as well as in the on-site and off-site supervision activities over Bangko Sentral-supervised entities. She represented the Bangko Sentral in international fora like the EMEAP (Executives Meeting for East Asia and the Pacific Central Banks) Working Group on Banking Supervision and the South East Asian Center for Central Banking (SEACEN) Group on Banking Supervision.

She served as a member of the technical working group of the Financial Sector Forum, a voluntary intersectoral body formed by the Bangko Sentral, the Securities and Exchange Commission, the Insurance Commission, and the Philippine Deposit Insurance Corporation.

A former President of the BAIPhil, a training provider for bankers, Ms. Yuvienco continues to be an adviser to the BAIPhil Training Institute.

Ms. Yuvienco obtained her BS Commerce, major in accounting, from St. Theresa's College, Quezon City in 1967. She took up post graduate studies at the University of the Philippines, Diliman.

Ms. Yuvienco is a certified public accountant and a career executive service professional.

JOSEPH A. GOTUACO, JOSE TEODORO K. LIMCAOCO
and ALFONSO L. SALCEDO JR.



SIMON R. PATERNO, NATIVIDAD N. ALEJO and ANTONIO V. PANER



Principal Officers

NATIVIDAD N. ALEJO Executive Vice President

58 years old, Filipino, serves as Head of Retail Clients. As such, Ms. Alejo oversees the bank's relationship with all clients who avail of BPI's services in their individual capacities, including private banking and overseas Filipino clients. She is also responsible for managing the bank's extensive branch network. Ms. Alejo serves on the bank's Management, Assets & Liabilities, and IT Steering committees. She also serves on the boards of BPI-Philam Life Assurance, where she is Co-Chair of the Bancassurance Working Committee and member of the Investment Committee; BPI Family Savings Bank; and BPI Direct.

Ms. Alejo joined BPI in 1979, when the bank acquired Commercial Bank & Trust, and worked in the corporate planning department. She has served in a senior management role in the bank's retail banking business since 2007. Between 2001 and 2007, Ms. Alejo served as the President and director of BPI Capital and BPI Securities. She also served as President of the Investment House Association of the Philippines in 2004 to 2006.

Ms. Alejo graduated in 1976 with AB Economics degree, *summa cum laude*, from Divine Word University, Tacloban City, where she was also a Gansewinkle Scholastic Trophy Awardee. She took MA Economics at University of the Philippines in 1978 and completed the Advanced Management Program at Harvard Business School in 2005. She is currently a director of An Waray Party List, a Manila-based civic organization consisting of Filipinos from Eastern Visayas. Ms. Alejo also serves on the Board of Regents of Leyte Normal University.

JOSEPH A. GOTUACO Executive Vice President

49 years old, Filipino, is Chief Financial Officer and serves as Head of Enterprise Services. As such, he is responsible for managing the primary infrastructure of the bank. He is Chairman of the bank's IT Steering and Capital Expenditure committees, and also serves on its Management, Assets and Liabilities, and Credit committees. Mr. Gotuaco serves on the boards of two subsidiaries, BPI Capital and BPI International Finance Ltd.

Mr. Gotuaco began his banking career in New York City in 1986, trading interest rate swaps, fixed income instruments, and Eurodollar futures. He joined J.P. Morgan in 1994, then a strategic shareholder in BPI, with client responsibilities in the Philippines and in Southeast Asia. In 2002, he joined Credit Suisse in its Fixed Income Division; in 2005, he joined Merrill Lynch, where he served as Managing Director in its fixed income, currencies and commodities division, where he was responsible for the division's sovereign and corporate clients in non-Japan Asia and served on the firm's Asia-Pacific operating committee. From 2009, he was based in Singapore, where he worked in an investment management vehicle of the Brunei government, and served in various capacities in the aviation and aviation finance industry.

Mr. Gotuaco obtained his BS Economics in Finance and Marketing, *summa cum laude*, from the Wharton School, University of Pennsylvania, in 1986. He obtained his MBA from Harvard Business School in 1994. Mr. Gotuaco also serves as a non-executive board member of AirFleet Capital, a US-based aviation finance company.

JOSE TEODORO K. LIMCAOCO President BPI Family Savings Bank

52 years old, Filipino, is President of BPI Family Savings Bank, the consumer banking flagship of BPI and the largest thrift bank in the Philippines. He has served in this capacity since July 2010. As such, Mr. Limcaoco is responsible for the bank's consumer lending (retail mortgage and auto loans), commercial loans to entrepreneurs and small enterprises, and payments businesses. He serves on the bank's Management, and Assets and Liabilities committees. He serves on the Board of BPI/MS Insurance, the bank's property and casualty insurance joint venture with Mitsui Sumitomo Insurance, BPI Globe BankO, Ayala Plans, and Philippine National Reinsurance. He was President of the Chamber of Thrift Banks in 2013 and 2014. Between 2007 and 2010, Mr. Limcaoco was President of BPI Capital, the bank's investment banking subsidiary.

Mr. Limcaoco joined Ayala Corporation in 1998, where he held various responsibilities including CFO for Azalea Technology Investments, President of myAyala.com, trustee and Treasurer for Ayala Foundation. Prior to this, he headed the investment banking and securities operations of Barclays PLC in the Philippines. He served as a currency and interest rate trader for J.P. Morgan in both New York City and Singapore. Before banking, Mr. Limcaoco worked in the tech industry, where he worked as a programmer at VLSI Technology, a semiconductor firm in San Jose, California.

Mr. Limcaoco received his BS in Mathematical Sciences (Honors Program) from Stanford University, in 1984. He received an MBA from Wharton School, University of Pennsylvania in 1988.

ANTONIO V. PANER Executive Vice President

56 years old, Filipino, Mr. Paner serves as Treasurer and Head of Global Markets. As such, he is responsible for managing the bank's interest rate and liquidity gaps, as well as its fixed income and currency market-making, trading, and distribution capabilities in both the Philippines and internationally. He is Chairman of the bank's Assets & Liabilities Committee, and is a member of the bank's Management Committee and Asset Management Investment Council. Mr. Paner is Chairman of BPI International Finance Ltd. and BPI Forex, and also serves on the boards of BPI Europe and BPI Direct.

Mr. Paner joined BPI in 1985, when the bank acquired Family Savings Bank and performed various treasury and trust functions until 1989. He rejoined BPI in 1996 as a result of the merger with Citytrust, which was then the consumer banking arm of Citibank in the Philippines. He has been responsible for various fixed income markets-related businesses of the bank, including risk taking, local currency portfolio management, and money management. He served President of the Money Market Association of the Philippines in 1998 and remains an active member of the Bankers Association of the Philippines' Open Market Committee. Mr. Paner is a member of the Money Markets Association of the Philippines, Makati Business Club, Management Association of the Philippines, British Chamber of Commerce, and the Philippine British Business Council.

Mr. Paner obtained an AB Economics degree from the Ateneo de Manila University in 1979 and completed various courses in business and finance, including strategic financial management in 2006. In 2009, he completed the Advanced Management Program at the Harvard Business School.

SIMON R. PATERNO Executive Vice President

56 years old, Filipino, serves as Head of Financial Products and Services. As such, he is responsible for building and managing BPI's businesses across all asset, liability, payments, and bancassurance platforms. He also serves on the bank's Management, Assets & Liabilities, and Credit committees, as well as on the boards of the following subsidiaries and affiliates: BPI Capital, BPI/MS Insurance, BPI Century Tokyo Lease and Finance, AF Payments and BPI Philam Life Assurance Corporation.

Prior to joining BPI, Mr. Paterno represented CIMB in its search for a Philippine bank investment, having joined the group in late 2012 as CEO-designate of Bank of Commerce, which was targeted for acquisition by CIMB. Between 2004 and 2012, he was Managing Director and Country Manager of Credit Suisse Securities Philippines, which he established and also served as chairman. Between 2002 and 2004, Mr. Paterno was President and CEO of Development Bank of the Philippines and concurrently Chairman of the LGU Guarantee and other DBP subsidiaries. Prior to DBP, Mr. Paterno worked as a Managing Director at J.P. Morgan, where he spent 18 years in various capacities, rising to Head for Sovereign Clients in all of Asia and later, Philippines Country Manager. During the Asian Financial Crisis, he led the project teams that advised the Indonesian Bank Restructuring Agency and its Malaysian counterpart, Danaharta. In his career, Mr. Paterno worked on some of the most significant sovereign financing transactions in the Philippines: restructuring of its foreign debt (1991), debut eurobond (1992), Brady exchanges (1994), Domestic Bond Exchanges (2006), and Debt Exchange Warrants (2008).

Mr. Paterno received his MBA from Stanford University in 1984 and his AB Honors Program in Economics, *cum laude*, from the Ateneo de Manila University in 1980. He serves on the boards of trustees of the Foundation for Economic Freedom and the Ateneo Scholarship Foundation. In 2005, he was elected President of the Management Association of the Philippines.

ALFONSO L. SALCEDO JR. Executive Vice President

59 years old, Filipino, is Head of Corporate Clients. As such, Mr. Salcedo oversees the bank's domestic and international relationships in the corporate and financial institutions space. He is currently a member of the bank's Management, Assets & Liabilities, and Credit committees, as well as member of the board of the following subsidiaries and affiliates: BPI-Philam Life Assurance, BPI Direct Savings, BPI Capital, BPI Century Tokyo Lease and Finance, and BPI Century Tokyo Rental.

Mr. Salcedo has served at BPI since 2000, when he became responsible for the firm's insurance businesses. Between 2004 and 2010, he served as President of BPI Family Savings Bank, the bank's retail lending flagship, and the largest thrift bank in the Philippines. Prior to joining BPI, Mr. Salcedo served for 10 years in the retail banking operations of Citibank Philippines. For five years, between 1983 and 1988, Mr. Salcedo was posted in Osaka, Japan as marketing manager of Nippon Vicks KK (Japan).

Mr. Salcedo received his AB Economics Honors degree, with honors, from the Ateneo de Manila University, in 1977. He also completed the Advanced Management Program at Harvard Business School in 2006. Mr. Salcedo currently serves on the board of Ayala Automotive Holdings.

Senior Management

As of end-December 2014

OFFICE OF THE CHAIRMAN

Chairman

Jaime Augusto Zobel de Ayala

Corporate Secretary

Carlos B. Aquino

Vice Presidents

Rosemarie B. Cruz

Marita Socorro D. Gayares

Angela Pilar B. Maramag

OFFICE OF THE PRESIDENT

President & CEO

Cezar P. Consing

Vice President

Conrado E. Laza

ONE BPI

Executive Vice President

Simon R. Paterno

RISK MANAGEMENT

Senior Vice President

Edgardo O. Madrilejo

Vice Presidents

Frances S. Amado

Daniel S. Bables

Beatrice Marie R. Guzman

Nicanor A. Mendiola

Sylvia P. Sumagpang

CORPORATE BANKING

Executive Vice President

Alfonso L. Salcedo

Senior Vice Presidents

Joseph Anthony M. Alonso

Olga S. Ang

Reymundo S. Castro

Angela C. Santiano

Judy K. Tecson

Roland Gerard R. Veloso Jr.

Vice Presidents

Homer L. Aniceto

Ma. Nanette A. Biason

Ma. Luisa L. Cruz

Dennis S. David

Ivy Maria E. de Guzman

Marie Joan Socorro J. de Jesus

Jo Ann B. Eala

Ma. Cristina U. Javier

Maria Teresa Anna K. Lim

Noelito C. Marcos

Barbara S. Muñoz

Arnold E. Oliva

Victoria Marie G. Ricardo

Jose Martin S. Sangco

Andre Angelo S. Santos

Elisa M. Silva

Ana Maria C. Sison

Barbara Ann C. Untalan

GLOBAL MARKETS

Executive Vice President

Antonio V. Paner

Senior Vice Presidents

Marie Christine L. Arguelles

Michael D. Calleja

Dino R. Gasmen

Roy Emil S. Yu

Vice Presidents

Henry C. Arceo

Ma. Lourdes D. Barrameda

Jaena A. Cebrero

Tomas S. Chuidian

Melinda V. Dulay

Rinaldo H. Fernandez

Jenny C. Guevara

Susana M. Manalo

Ma. Lourdes B. Montelibano

Donarber N. Pineda

Maria Socorro D. Ramirez

Ruby Rosario J. Severino

Jennifer Gayle P. Singian

Arthur Noel S. Tan

Lizbeth Joan P. Yulo

ASSET MANAGEMENT & TRUST

Senior Vice Presidents

Maria Theresa M. Javier

Estelito C. Biacora

Paul Joseph M. Garcia

Mario T. Miranda

Vice Presidents

Remarie Suzette A. Ayson

Ruth B. Bandera

Miguel P. Cervantes

Smith L. Chua

Yvette Mari V. de Peralta

Odette S. Diaz

Irene A. Diomampo

Roberto Martin S. Enrile

Ruben Enrique A. Espiritu

Mario Gerardo Z. Evaristo

Maria Paz A. Garcia

Carlos A. Jalandoni

Marijoy Y. Kawpeng

Aileen Beryl A. Limketee

Christmas G. Sevilla

Eliza May T. Taco

Cecilia P. Tanchoco

RETAIL SEGMENTS & CHANNELS

Executive Vice President

Natividad N. Alejo

Senior Vice Presidents

Raul D. Dimayuga

Angelie O. King

Marie Josephine M. Ocampo

Manuel C. Tagaza

Heidi P. Ver

Sylvia P. Yngente

Vice Presidents

Roberto O. Bautista

Arlene S. Dayrit

Brenno C. Dytoc

Jesusa Camila V. Gangoso

Carlo Carmelo S. Gatuslao

Noemi G. Go

Carmencita Lilia B. Gozar

Luis D. Ibarra Jr.

Jose Raul E. Jereza

Danilo L. Kimseng

Maria Consuelo A. Lukban

Rodolfo K. Mabiase

Gerardo E. Magpantay

Ma. Carmina T. Marquez

Jerome B. Minglana

Joseph Philip Anthony S. Parungao

Ma. Cristina L. San Diego

Mary Catherine Elizabeth P.

Santamaria

Ma. Dina F. Soriano

Ana Liza C. Sta. Ana

Rommel D. Tadique

Edilberto N. Uichanco Jr.

PAYMENTS & UNSECURED LENDING

Senior Vice Presidents

Ma. Cristina L. Go

Aniceta P. del Mundo

Vice Presidents

Jose M. de Vera

Cecile Catherine A. dela Paz

Richmond Ezer O. Escolar

Maria Angelica G. Florentino

Jesus Angelo O. Gomez

Aileen S. Lamasuta

Genaro N. Lualhati

ENTERPRISE SERVICES

Executive Vice President

Joseph Albert L. Gotuaco

Senior Vice Presidents

Fidelina A. Corcuera

Florendo G. Maranan

Pilar Bernadette C. Marquez

Eugenio P. Mercado

Maria Corazon S. Remo

Vice Presidents

Ramon Eduardo E. Abasolo

Albert I. Alberto

Jocelyn C. Alviar

Maria Concepcion A. Bednar

Rosario J. Benedicto

Napoleon I. Cruz

Josephine F. Fernandez

Andre M. Flores

Roberto E. Galvez

Santiago L. Garcia Jr.

Florentino T. Gonzalez III

Edgardo R. Jimenez

Ailen C. Kho

Eugene O. Lee

Maria Antonia O. Leong

Roseller B. Lim

Irmingardo O. Ludovice

Francisca Ann M. Lustre

Melvin M. Miranda

Elfrida S. Narboneta

Rafael J. Pertierra

Paul Roderick A. Ysmael

BPI FAMILY SAVINGS BANK

President

Jose Teodoro K. Limcaoco

Senior Vice Presidents

Joaquin Ma. B. Abola

Ma. Mercedes D. Rocas

Jocelyn C. Sta. Ana

Vice Presidents

Ramon Noel S. Altamirano

Luisito R. Ballelos

Felipe P. Carlos

Amy Belen R. Dio

Susan L. Erguiza

Rodolfo B. Fernandez

Charito O. Hiteroza

Miriam Jane M. Jacinto

Lourdes O. Mallare

Susan E. Pimentel

Erick M. Ramos

Jose Roman H. Santos

Ma. Christina Z. Sison

BPI/MS INSURANCE

President

Kenichi Tanabe

Senior Business Director

Perfecto M. Domingo

Business Director

Ma. Perpetua A. Cutiongco

BPI DIRECT SAVINGS

President

Herbert Vincent D. Tuason

BPI CAPITAL CORPORATION

President

Daniel Gabriel M. Montecillo

Vice Presidents

Bonifacio M. Banzon

Reginaldo Anthony B. Carioso

Luis Geminiano E. Cruz

Eric Roberto M. Luchangco

Sheila Marie U. Tan

Luis C. Urcia

George S. Uy-Tioco

BPI SECURITIES CORPORATION

Managing Director & CEO

Michaelangelo D. Oyson

Directors

Richard Anthony C. Liboro

Marianna M. Ongpin

Diosdado C. Salang

BPI CENTURY TOKYO LEASE & FINANCE CORPORATION

President

Shigeo Saito

Vice Presidents

Christine Grace A. Bandol

Gracia C. de Jesus

Masahito Ikeda

Samuel C. Tang

BPI FOREX CORPORATION

President

Manuel C. Sanchez

BPI EUROPE PLC

Managing Director

Ramon G. Opulencia

BPI INTERNATIONAL FINANCE LTD.

Managing Director

Jose Esteban J. Salvan

AYALA PLANS INC.

Director/OIC

Elizabeth J. Tan

‘We remain committed to delivering robust financial performance—one that delivers superior profitability while taking prudent risks.’

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REPORT OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS

Bank of the Philippine Islands

For the Year ended December 31, 2014

The Board-approved Audit Committee Charter defines the duties and responsibilities of the Audit Committee. In accordance with this Charter, the Committee assists the Board of Directors in fulfilling its oversight responsibilities to the shareholders with respect to:

- System of internal controls, risk management and governance process of the Bank,
- Integrity of the Bank's financial statements and financial reporting process
- Performance of the internal audit function and the external auditor
- Compliance with bank policies, applicable laws, rules and regulatory requirements

The Committee is composed of five (5) non-executive directors, with two (2) independent directors including the Chairman. For 2014, the Committee held twelve (12) regular meetings and one (1) special meeting. In carrying out its functions, the Committee performed the following activities in relation to the:

1. Financial Statements:

- a) Reviewed and discussed the audited consolidated financial statements of the Bank of the Philippine Islands (BPI) and its related disclosures for the year ended December 31, 2014, including the assessment of the Bank's internal controls relative to the financial reporting process, with Management, internal auditors, and the external auditor, Isla Lipana & Co., a member firm of Price Waterhouse Coopers. The review was performed in the following context:

- That Management has the primary responsibility for the financial statements and the financial reporting process, and
- That Isla Lipana is responsible for expressing an opinion on the conformity of BPI's annual audited consolidated financial statements with the Philippine Financial Reporting Standards.

After obtaining assurance on the external auditor's independent and thorough review of the financial statements, the Committee endorsed the audited financial statements for approval by the Board and for inclusion in the 2014 Annual Report to the Stockholders.

- b) Discussed with Management and internal auditors, the quarterly unaudited financial report of BPI including the results of operations and endorsed the financial statements to the Board of Directors for approval.

2. External Audit:

- a) Reviewed the annual audit plan and the related scope of work of the external auditors, ensuring that areas of focus are appropriately covered and there were no significant gaps in the scope between external and internal audits. In consultation with Management, the Committee approved the term of engagement and audit fees of the external auditor.
- b) Assessed the overall performance and effectiveness of the external auditors in terms of their independence, competence and execution of the audit plan. The Committee recommended for consideration/endorsement of the Board of Directors to the shareholders, the re-engagement of Isla Lipana & Co. for BPI and its major operating subsidiaries and affiliates for the year 2015.

Isla Lipana & Co. had reaffirmed its independence from BPI and its subsidiaries. Committee also held an annual executive session with the external auditor to discuss any matters of concern on internal controls relating to its financial reporting and attestation process.

3. Internal Audit:

- a) Reviewed and approved the Internal Audit work plan including its charter, risk assessment model and audit rating framework. The Committee ensured that the activities of Internal Audit are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing (ISPIA).

- b) Reviewed and discussed the reports from internal audit and other management assurance units, ensuring that Management is taking the appropriate corrective actions on the control weaknesses in a timely manner and all identified risk are reviewed in coordination with the Risk Management Committee. The Committee also discussed updates on the Information Technology organization and strategy, including Management action plans focusing on strengthening further IT governance and oversight of outsourced services.
- c) Reviewed the minutes of meetings of the Audit Committee of BPI subsidiaries, to ensure that identified control weaknesses, operational risk and compliance issues are monitored and acted upon.
- d) Evaluated the performance of the Chief Audit Executive. The Committee also ensures that the internal audit function is independent, has adequate and competent resources, and has authority to be able to effectively discharge its duties.


4. Regulatory Compliance:

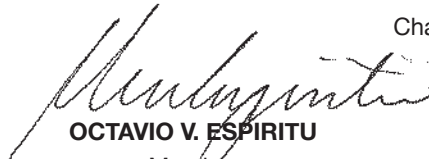
- a) Approved the updated manuals for the BPI Compliance system and Anti-Money Laundering review, ensuring that Compliance Office oversees the implementation of the Bank's enterprise-wide compliance programs.
- b) Discussed the latest BSP report of examination as of October 2013 which indicated satisfactory results, including Management's responses to the compliance issues and recommendations. The Committee constantly monitored the status and progress of Management's action plans through the regular reports/updates of the Compliance Office. Relative to the related party transactions (RPT), a Board-level RPT Committee was created with both Compliance Office and Internal Audit as non-voting members.

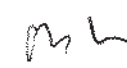
In compliance with the SEC requirement and the BPI Corporate Governance Manual, the Audit Committee:


- Attended the annual SEC accredited workshop/program on corporate governance, aside from the regular updates on new relevant laws, regulations and other applicable standards.
- Reviewed and reassessed the Audit Committee Charter to ensure that it is annually updated and aligned with recent guidelines and other relevant regulations. The Committee also conducted an annual self-assessment of its performance, results of which were validated by the Compliance Officer and discussed by the Corporate Governance Committee.


Based on the results of the assurance activities performed by the Bank's Internal Audit and the external auditor's unqualified opinion on the financial statement, the Committee assessed that the Bank's system of internal controls, risk management, and governance processes are adequate and generally effective. This overall assessment states, among others, that the audit scope and coverage are sufficient, comprehensive, and risk-based, that Management is aware of its responsibility for internal control, and that there is no interference with the accomplishment of audit activities and reporting of issues and other relevant information to Management, Audit Committee, and the Board of Directors.


XAVIER P. LOINAZ
Chairman - Audit Committee


OCTAVIO V. ESPIRITU
Member


AURELIO R. MONTINOLA III
Member


OSCAR S. REYES
Member


MA. DOLORES B. YUVIENCO
Member

SUMMARY OF FINANCIAL PERFORMANCE

Results of Operations

In 2014, BPI achieved net income of P18.0 billion, an amount P0.8 billion, or 4.1 percent, lower than the P18.8 billion earned in the prior year. The decline in net income resulted from a P4.2-billion increase in operating expense, provisions and taxes, which offset a P3.3-billion, or 6.3-percent, increase in total revenues.

Return on equity (ROE) was 13.8 percent, 4.3-percent lower than last year's 18.1 percent. The drop in ROE is the combined result of lower net income and a 26-percent increase in average equity, the result of a rights issue undertaken at the start of 2014. Return on assets declined to 1.44 percent from last year's 1.87 percent.

Total revenue increased to P55.8 billion, from last year's P52.5 billion, driven largely by a P4.5-billion improvement in net interest income. Net interest income of P34.8 billion, increased 14.8 percent from last year's P30.3 billion. This upsurge was primarily due to a P247.0-billion, or 24.6-percent, expansion in average asset base and was partly tempered by a 28-basis point drop in net interest spreads.

Non-interest income of P21.0 billion declined 5.4 percent from last year's P22.2 billion. This P1.2-billion decline was attributed to lower trading gains on securities (down by P3.5 billion, or 71.8 percent), and income attributable to insurance operations (down by P442 million, or 30.5 percent). Other operating income increased P1.2 billion, or 12.1 percent, mainly due to higher profit from assets sold, credit card income, and miscellaneous income. Fees and commissions increased P1.5 billion, or 25.2 percent, owing to increases in service charges, bank commissions, and underwriting fees.

Impairment losses at P2.8 billion, increased P159 million, or 6.0 percent, from 2013 as the bank added provisions in anticipation of growth in its loan portfolio.

Other expenses, at P30.0 billion, increased P3.3 billion, or 12.2 percent, from last year's P26.7 billion. Compensation and fringe benefits increased P1.2 billion, or 11.4 percent, largely due to increased headcount. Other operating expenses increased P1.1 billion, or 13.4 percent, on higher regulatory cost, third party fees and incentives, product related insurance premium,

advertising, management and other professional fees, and other miscellaneous transaction-related expenses. Occupancy and equipment-related expenses increased P977 million, or 12.2 percent, due to increases in computer equipment and software costs, contractuales, rental, depreciation, and amortization costs.

Financial Condition

The bank's total resources stood at P1.45 trillion, P254.8 billion, or 21.3 percent, higher than last year's P1.2 trillion. This increase was driven by a P187.6-billion, or 19.0-percent, increase in total deposits, which reached P1.2 trillion. Current and savings deposits grew P130.9 billion or 19.1 percent, while time deposits increased by P56.7 billion, or 18.7 percent.

Total capital funds increased P40.9 billion, or 38.6 percent, to P146.7 billion from previous year's P105.8 billion. This increase in capital was largely due to a P25-billion rights issue completed in February 2014. Profits for the year (net of cash dividends paid) likewise contributed to the capital growth. The bank's capital adequacy ratio, using Basel III measures, was 14.8 percent, up from last year's 13.7 percent. This year's CAR remained substantially higher than the 10-percent regulatory requirement. BPI's market capitalization remained one of the largest in the industry at P369.6 billion. As of December 31, 2014, the bank's share price traded at a P94.00 per share, representing a premium of 2.6x its book value per share of P36.64.

Loans, net of impairment losses, increased to P800.2 billion, an amount P170.0 billion, or 27.0 percent, higher than last year's P630.2 billion. The bank's non-performing loan ratio, at 0.50 percent, slightly increased from its end-2013 level of 0.48 percent.

Liquid assets at P294.2 billion, declined P15.0 billion, or 4.8 percent, largely due to lower special deposit account with Bangko Sentral.

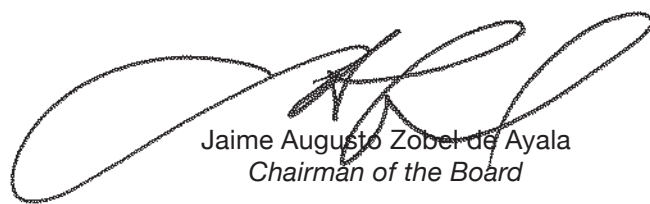
Investment securities, at P260.7 billion, increased P77.0 billion from the prior year's P183.7 billion. Held-to-maturities securities increased P113.2 billion, or 117.7 percent, due to the longer term orientation of the bank's additional investments, while available-for-sale securities decreased P36.2 billion, or 41.4 percent.


STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS


The management of Bank of the Philippine Islands is responsible for the preparation and fair presentation of the financial statements for the year ended December 31, 2014, in accordance with the prescribed financial reporting framework indicated, including the additional components attached therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

Isla Lipana & Co., a member firm of PwC (PricewaterhouseCoopers), the independent auditors appointed by the stockholders, has examined the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such examination.


Jaime Augusto Zobel de Ayala
Chairman of the Board



Cezar P. Consing
President
and Chief Executive Officer


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

SUBSCRIBE AND SWORN to before me at Makati City, Metro Manila this Feb. 26, 2015, affiants exhibited to me their Passport with the following details:

Name	Passport No.	Date/Place of Issue	Valid Until
Jaime Augusto Zobel de Ayala	EB1548914	Dec. 13, 2010/DFA Manila	Dec. 12, 2015
Cezar P. Consing	EB9284966	Oct. 02, 2013/Hong Kong	Oct. 01, 2018
Joseph Albert L. Gotuaco	EC 2373461	Oct. 10, 2014/DFA Manila	Oct. 09, 2019

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Book No. II
Series of 2015


DENCIO R. BARGA
NOTARY PUBLIC FOR MAKATI CITY
Until December 31, 2016, Appointment No. M-212
Rm. 500 Madrigal Bldg., Ayala Ave., Makati City
PRT No. 10730453J - 7/1/14 - Las Pinas City
IBP No. 0983701 - 1/6/15 - Quezon City
Attorney's Roll No. 26223



Isla Lipana & Co.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of
Bank of the Philippine Islands
BPI Building, 6768 Ayala Avenue
Makati City

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Bank of the Philippine Islands and Subsidiaries (the BPI Group) and the parent financial statements of Bank of the Philippine Islands (the Parent Bank), which comprise the consolidated and parent statements of condition as at December 31, 2014 and 2013, and the consolidated and parent statements of income, statements of total comprehensive income, statements of changes in capital funds and statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 consolidated and parent financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated and parent financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

*Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines
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Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Shareholders of
Bank of the Philippine Islands
Page 2

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

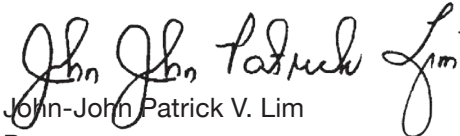
Opinion

In our opinion, the accompanying consolidated and parent financial statements present fairly, in all material respect, the financial position of the BPI Group and of the Parent Bank as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

Report on Bureau of Internal Revenue Requirements

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 33 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.

Isla Lipana & Co.


John-John Patrick V. Lim
Partner

CPA Cert. No. 83389

P.T.R. No. 0007706, issued on January 6, 2015, Makati City

SEC A.N. (individual) as general auditors 0050-AR-3, Category A; effective until January 17, 2016

SEC A.N. (firm) as general auditors 0009-FR-3; effective until August 15, 2015

TIN 112-071-386

BIR A.N. 08-000745-17-2013, issued on April 4, 2013; effective until April 3, 2016

BOA/PRC Reg. No. 0142, effective until December 31, 2016

Makati City

February 20, 2015

STATEMENTS OF CONDITION

December 31, 2014 and 2013

(In Millions of Pesos)

	Notes	CONSOLIDATED		PARENT	
		2014	2013	2014	2013
RESOURCES					
CASH AND OTHER CASH ITEMS	7	38,427	25,696	37,292	24,888
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	211,946	244,483	170,648	195,076
DUE FROM OTHER BANKS	7	22,227	17,070	15,429	8,789
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	7, 8	5,782	17,397	5,246	10,037
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS					
- DERIVATIVE FINANCIAL ASSETS	9	35,981	16,550	35,981	16,550
- TRADING SECURITIES	10	15,862	4,597	6,620	2,626
AVAILABLE-FOR-SALE SECURITIES, net	11	51,309	87,556	41,866	81,736
HELD-TO-MATURITY SECURITIES	12	209,409	96,172	193,001	85,900
LOANS AND ADVANCES, net	13	800,170	630,203	621,441	475,155
ASSETS HELD FOR SALE, net		5,018	5,852	2,470	3,480
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	14	12,760	12,205	8,467	8,030
INVESTMENT PROPERTIES, net	15	808	1,597	808	1,597
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net	16	4,784	4,176	6,726	6,793
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	5, 7	16,445	14,586	-	-
DEFERRED INCOME TAX ASSETS, net	17	5,718	6,176	3,595	4,296
OTHER RESOURCES, net	18	13,551	11,048	8,658	7,414
Total resources		1,450,197	1,195,364	1,158,248	932,367

(forward)

STATEMENTS OF CONDITION

December 31, 2014 and 2013

(In Millions of Pesos)

	Notes	CONSOLIDATED		PARENT	
		2014	2013	2014	2013
LIABILITIES AND CAPITAL FUNDS					
DEPOSIT LIABILITIES	19	1,176,213	988,586	952,681	785,403
DERIVATIVE FINANCIAL LIABILITIES	9	34,846	16,360	34,846	16,360
BILLS PAYABLE	20	32,993	26,179	26,288	18,990
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		687	2,051	688	2,052
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		8,353	7,183	6,664	6,026
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		5,597	4,907	4,017	3,396
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	5	13,561	13,061	-	-
DEFERRED CREDITS AND OTHER LIABILITIES	21	31,268	31,230	25,469	26,338
Total liabilities		1,303,518	1,089,557	1,050,653	858,565
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI					
Share capital	22	39,272	35,563	39,272	35,563
Share premium		29,341	8,316	29,341	8,316
Reserves		2,098	1,680	2,095	1,680
Surplus		76,575	62,137	41,388	32,053
Accumulated other comprehensive loss		(3,223)	(3,161)	(4,501)	(3,810)
Total capital funds		144,063	104,535	107,595	73,802
NON-CONTROLLING INTERESTS		2,616	1,272	-	-
Total liabilities and capital funds		1,450,197	1,195,364	1,158,248	932,367

(The notes on pages 84 to 174 are an integral part of these financial statements.)

STATEMENTS OF INCOME

For each of the three years in the period ended December 31, 2014

(In Millions of Pesos, Except Per Share Amounts)

	Notes	CONSOLIDATED			PARENT		
		2014	2013	2012	2014	2013	2012
INTEREST INCOME							
On loans and advances		36,441	32,368	30,790	23,282	20,255	19,356
On held-to-maturity securities		8,141	4,930	5,191	7,545	4,434	4,638
On available-for-sale securities		831	2,615	3,424	778	2,436	3,126
On deposits with BSP and other banks		1,769	1,641	1,230	1,135	904	702
On trading securities		406	690	847	370	628	763
Gross receipts tax		(1,596)	(1,442)	(1,373)	(1,147)	(1,000)	(963)
		45,992	40,802	40,109	31,963	27,657	27,622
INTEREST EXPENSE							
On deposits	19	10,834	9,530	11,648	6,735	5,187	6,929
On bills payable and other borrowings	20	350	948	1,007	138	597	588
		11,184	10,478	12,655	6,873	5,784	7,517
NET INTEREST INCOME		34,808	30,324	27,454	25,090	21,873	20,105
IMPAIRMENT LOSSES	11, 13, 18	2,807	2,648	2,923	1,787	1,599	2,003
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		32,001	27,676	24,531	23,303	20,274	18,102
OTHER INCOME							
Trading gain on securities		1,362	4,839	5,908	1,034	3,983	4,717
Fees and commissions		7,370	5,885	5,111	5,400	4,823	4,256
Income from foreign exchange trading		2,007	2,042	1,682	1,683	1,652	1,372
Income attributable to insurance operations	5	1,007	1,449	694	-	-	-
Other operating income	23	10,668	9,514	7,878	9,971	8,556	6,771
Gross receipts tax		(1,435)	(1,555)	(1,342)	(1,195)	(1,307)	(1,122)
		20,979	22,174	19,931	16,893	17,707	15,994
OTHER EXPENSES							
Compensation and fringe benefits	25	11,850	10,641	10,470	9,568	8,292	8,262
Occupancy and equipment-related expenses	14, 15, 24	9,017	8,040	7,193	7,144	6,460	5,798
Other operating expenses	25	9,093	8,022	7,139	6,593	5,872	5,378
		29,960	26,703	24,802	23,305	20,624	19,438
INCOME BEFORE INCOME TAX		23,020	23,147	19,660	16,891	17,357	14,658
PROVISION FOR INCOME TAX	26						
Current		5,374	4,147	3,576	3,759	2,644	2,444
Deferred	17	(416)	6	(418)	(138)	245	(213)
		4,958	4,153	3,158	3,621	2,889	2,231
NET INCOME FOR THE YEAR		18,062	18,994	16,502	13,270	14,468	12,427
Attributable to:							
Equity holders of BPI		18,039	18,811	16,352	13,270	14,468	12,427
Non-controlling interests		23	183	150	-	-	-
		18,062	18,994	16,502	13,270	14,468	12,427
Earnings per share for net income attributable to the equity holders of BPI during the year:							
Basic and diluted	22	4.62	5.19	4.60	3.40	3.99	3.49

(The notes on pages 84 to 174 are an integral part of these financial statements.)

STATEMENTS OF TOTAL COMPREHENSIVE INCOME

For each of the three years in the period ended December 31, 2014

(In Millions of Pesos)

	Note	CONSOLIDATED			PARENT		
		2014	2013	2012	2014	2013	2012
NET INCOME FOR THE YEAR		18,062	18,994	16,502	13,270	14,468	12,427
OTHER COMPREHENSIVE INCOME	22						
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		(903)	(3,983)	(718)	(1,043)	(3,671)	(550)
Share in other comprehensive income (loss) of associates		254	(88)	503	-	-	-
Fair value reserve on investments of insurance subsidiaries, net of tax effect		169	(309)	161	-	-	-
Currency translation differences		(65)	233	(104)	-	-	-
Item that will not be reclassified to profit or loss							
Actuarial gains (losses) on defined benefit plan, net of tax effect		500	(491)	1,752	352	(416)	1,390
Total other comprehensive (loss) income, net of tax effect		(45)	(4,638)	1,594	(691)	(4,087)	840
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		18,017	14,356	18,096	12,579	10,381	13,267
Attributable to:							
Equity holders of BPI		17,972	14,230	17,937	12,579	10,381	13,267
Non-controlling interests		45	126	159	-	-	-
		18,017	14,356	18,096	12,579	10,381	13,267

(The notes on pages 84 to 174 are an integral part of these financial statements.)

STATEMENTS OF CHANGES IN CAPITAL FUNDS

For each of the three years in the period ended December 31, 2014
(In Millions of Pesos)

CONSOLIDATED								
Attributable to equity holders of BPI (Note 22)								
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total	Non-controlling interests	Total equity
Balance, January 1, 2012	35,562	8,317	1,462	41,763	(165)	86,939	1,377	88,316
Comprehensive income								
Net income for the year	-	-	-	16,352	-	16,352	150	16,502
Other comprehensive income for the year	-	-	-	-	1,585	1,585	9	1,594
Total comprehensive income for the year	-	-	-	16,352	1,585	17,937	159	18,096
Transactions with owners								
Cash dividends	-	-	-	(8,180)	-	(8,180)	-	(8,180)
Transfer from surplus to reserves	-	-	141	(141)	-	-	-	-
Other changes in non-controlling interests	-	-	-	-	-	-	(110)	(110)
Total transactions with owners	-	-	141	(8,321)	-	(8,180)	(110)	(8,290)
Balance, December 31, 2012	35,562	8,317	1,603	49,794	1,420	96,696	1,426	98,122
Balance, January 1, 2013	35,562	8,317	1,603	49,794	1,420	96,696	1,426	98,122
Comprehensive income								
Net income for the year	-	-	-	18,811	-	18,811	183	18,994
Other comprehensive loss for the year	-	-	-	-	(4,581)	(4,581)	(57)	(4,638)
Total comprehensive income (loss) for the year	-	-	-	18,811	(4,581)	14,230	126	14,356
Transactions with owners								
Cash dividends	-	-	-	(6,401)	-	(6,401)	-	(6,401)
Transfer from surplus to reserves	-	-	76	(76)	-	-	-	-
Others	1	(1)	1	9	-	10	-	10
Other changes in non-controlling interests	-	-	-	-	-	-	(280)	(280)
Total transactions with owners	1	(1)	77	(6,468)	-	(6,391)	(280)	(6,671)
Balance, December 31, 2013	35,563	8,316	1,680	62,137	(3,161)	104,535	1,272	105,807
Balance, January 1, 2014	35,563	8,316	1,680	62,137	(3,161)	104,535	1,272	105,807
Comprehensive income								
Net income for the year	-	-	-	18,039	-	18,039	23	18,062
Other comprehensive (loss) income for the year	-	-	-	-	(67)	(67)	22	(45)
Total comprehensive income (loss) for the year	-	-	-	18,039	(67)	17,972	45	18,017
Transactions with owners								
Proceeds from the stock rights offering	3,709	21,025	-	-	-	24,734	-	24,734
Executive stock plan amortization	-	-	21	-	-	21	-	21
Cash dividends	-	-	-	(3,538)	-	(3,538)	-	(3,538)
Transfer from surplus to reserves	-	-	397	(397)	-	-	-	-
Change in ownership interest in subsidiary that did not result in loss of control	-	-	-	336	-	336	-	336
Others	-	-	-	(2)	5	3	-	3
Other changes in non-controlling interests	-	-	-	-	-	-	1,299	1,299
Total transactions with owners	3,709	21,025	418	(3,601)	5	21,556	1,299	22,855
Balance, December 31, 2014	39,272	29,341	2,098	76,575	(3,223)	144,063	2,616	146,679

(The notes on pages 84 to 174 are an integral part of these financial statements.)

STATEMENTS OF CHANGES IN CAPITAL FUNDS

For each of the three years in the period ended December 31, 2014
(In Millions of Pesos)

PARENT (NOTE 22)						
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2012	35,562	8,317	1,462	19,948	(563)	64,726
Comprehensive income						
Net income for the year	-	-	-	12,427	-	12,427
Other comprehensive income for the year	-	-	-	-	840	840
Total comprehensive income for the year	-	-	-	12,427	840	13,267
Transactions with owners						
Cash dividends	-	-	-	(8,180)	-	(8,180)
Transfer from surplus to reserves	-	-	141	(141)	-	-
Total transactions with owners	-	-	141	(8,321)	-	(8,180)
Balance, December 31, 2012	35,562	8,317	1,603	24,054	277	69,813
Balance, January 1, 2013	35,562	8,317	1,603	24,054	277	69,813
Comprehensive income						
Net income for the year	-	-	-	14,468	-	14,468
Other comprehensive loss for the year	-	-	-	-	(4,087)	(4,087)
Total comprehensive income (loss) for the year	-	-	-	14,468	(4,087)	10,381
Transactions with owners						
Cash dividends	-	-	-	(6,401)	-	(6,401)
Transfer from surplus to reserves	-	-	76	(76)	-	-
Others	1	(1)	1	8	-	9
Total transactions with owners	1	(1)	77	(6,469)	-	(6,392)
Balance, December 31, 2013	35,563	8,316	1,680	32,053	(3,810)	73,802
Balance, January 1, 2014	35,563	8,316	1,680	32,053	(3,810)	73,802
Comprehensive income						
Net income for the year	-	-	-	13,270	-	13,270
Other comprehensive loss for the year	-	-	-	-	(691)	(691)
Total comprehensive income (loss) for the year	-	-	-	13,270	(691)	12,579
Transactions with owners						
Proceeds from the stock rights offering	3,709	21,025	-	-	-	24,734
Executive stock option plan amortization	-	-	18	-	-	18
Cash dividends	-	-	-	(3,538)	-	(3,538)
Transfer from surplus to reserves	-	-	397	(397)	-	-
Total transactions with owners	3,709	21,025	415	(3,935)	-	21,214
Balance, December 31, 2014	39,272	29,341	2,095	41,388	(4,501)	107,595

(The notes on pages 84 to 174 are an integral part of these financial statements.)

STATEMENTS OF CASH FLOWS

For each of the three years in the period ended December 31, 2014
(In Millions of Pesos)

	Notes	CONSOLIDATED			PARENT		
		2014	2013	2012	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES							
Income before income tax		23,020	23,147	19,660	16,891	17,357	14,658
Adjustments for:							
Impairment losses	11, 13, 18	2,807	2,648	2,923	1,787	1,599	2,003
Depreciation and amortization	14, 15	3,587	3,459	3,346	2,299	2,125	2,188
Share in net income of associates	16	(257)	(590)	(138)	-	-	-
Dividend and other income	2, 23	(22)	(28)	(27)	(2,000)	(1,923)	(1,383)
Share based compensation		21	1	-	18	1	-
Interest income		(47,588)	(42,244)	(41,482)	(33,110)	(28,657)	(28,585)
Interest expense		11,184	10,478	12,655	6,874	5,784	7,517
Operating loss before changes in operating assets and liabilities		(7,248)	(3,129)	(3,063)	(7,241)	(3,714)	(3,602)
Changes in operating assets and liabilities (Increase) decrease in:							
Interbank loans receivable and securities purchased under agreements to resell		(5,045)	-	-	(5,010)	-	-
Trading securities, net		(11,218)	17,345	(9,887)	(3,952)	16,291	(7,593)
Loans and advances, net		(167,393)	(110,369)	(74,049)	(142,705)	(91,710)	(53,801)
Assets held for sale		764	434	1,868	878	900	1,759
Assets attributable to insurance operations		(910)	(2,059)	(724)	-	-	-
Other resources		(2,897)	3,212	(3,661)	(1,545)	2,901	(3,603)
Increase (decrease) in:							
Deposit liabilities		187,627	186,312	121,173	167,278	157,038	83,951
Due to Bangko Sentral ng Pilipinas and other banks		(1,364)	16	317	(1,364)	16	318
Manager's checks and demand drafts outstanding		1,170	1,389	1,663	637	1,518	1,120
Accrued taxes, interest and other expenses		623	542	557	419	306	652
Liabilities attributable to insurance operations		500	2,267	856	-	-	-
Derivative financial instruments		(935)	(107)	387	(935)	(107)	608
Deferred credits and other liabilities		3,737	3,250	3,949	2,684	3,157	3,191
Net cash (used in) from operations		(2,589)	99,103	39,386	9,144	86,596	23,000
Interest received		45,984	42,407	41,152	31,608	28,927	27,479
Interest paid		(11,117)	(10,932)	(12,418)	(6,672)	(6,149)	(7,423)
Income taxes paid		(4,500)	(5,243)	(2,961)	(2,920)	(3,660)	(2,079)
Net cash from operating activities (forward)		27,778	125,335	65,159	31,160	105,714	40,977

STATEMENTS OF CASH FLOWS

For each of the three years in the period ended December 31, 2014
(In Millions of Pesos)

	Notes	CONSOLIDATED			PARENT		
		2014	2013	2012	2014	2013	2012
CASH FLOWS FROM INVESTING ACTIVITIES							
(Increase) decrease in:							
Available-for-sale securities, net	11	35,013	14,479	(32,756)	38,452	7,078	(28,286)
Held-to-maturity securities	12	(111,906)	(19,695)	13,230	(105,811)	(17,879)	12,165
Bank premises, furniture, fixtures and equipment, net	14	(3,434)	(2,557)	(2,748)	(2,061)	(1,406)	(1,416)
Investment properties, net		709	909	(12)	709	912	(12)
Investment in subsidiaries and associates, net		(95)	(349)	(24)	(248)	302	(80)
Assets attributable to insurance operations		(851)	936	(614)	-	-	-
Dividends received	23	22	28	27	572	1,923	1,383
Proceeds from sale of interest in a subsidiary	2	-	-	-	1,744	-	-
Net cash used in investing activities		(80,542)	(6,249)	(22,897)	(66,643)	(9,070)	(16,246)
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash dividends paid		(6,739)	(3,201)	(11,380)	(6,739)	(3,201)	(11,380)
Increase (decrease) in:							
Collection on stock subscriptions		24,733	-	-	24,733	-	-
Bills payable		6,812	(100)	7,144	7,300	(2,973)	7,076
Unsecured subordinated debt	20	-	(5,000)	-	-	-	-
Proceeds from sale of interest in a subsidiary to a non-controlling interest	2	1,744	-	-	-	-	-
Net cash from (used in) financing activities		26,550	(8,301)	(4,236)	25,294	(6,174)	(4,304)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(26,214)	110,785	38,026	(10,189)	90,470	20,427
CASH AND CASH EQUIVALENTS	7						
January 1		299,772	188,987	150,961	233,799	143,329	122,902
December 31		273,558	299,772	188,987	223,610	233,799	143,329

(The notes on pages 84 to 174 are an integral part of these financial statements.)

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2014 and 2013 and for each of the three years
in the period ended December 31, 2014

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 2.3 (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, 2014, the BPI Group has 14,542 employees (2013 - 13,024 employees) and operates 825 branches and 2,575 ATMs (2013 - 825 branches and 2,181 ATMs) to support its delivery of services. The BPI Group also serves its customers through alternative electronic banking channels such as telephone, mobile phone and the internet. The BPI shares have been traded in the Philippine Stock Exchange (PSE) since October 12, 1971. The Parent Bank was registered with the Securities and Exchange Commission (SEC) on January 4, 1943. This license was extended for another 50 years on January 4, 1993.

These financial statements have been approved and authorized for issuance by the Board of Directors of the Parent Bank on February 18, 2015. There are no material events that occurred subsequent to February 18, 2015 until February 20, 2015.

Note 2 - 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.

2.1 Basis of preparation

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

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

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

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

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the BPI Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the financial statements therefore fairly present the financial position and results of the BPI Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2.2 Changes in accounting policy and disclosures

New and amended standards adopted by the BPI Group

The following standards have been adopted by the BPI Group effective January 1, 2014:

- *Amendment to PAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities.* This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the BPI Group's financial statements.
- *Amendment to PAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets.* This amendment removed certain disclosures of the recoverable amount of cash generating units (CGUs) which had been included in PAS 36 by the issue of PFRS 13, Fair Value Measurement. The amendment did not have a significant effect on the BPI Group's financial statements.
- *Amendment to PAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting.* This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under PAS 39, novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The amendment did not have a significant effect on the BPI Group's financial statements.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2014 are considered not relevant to the BPI Group.

New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing these financial statements. None of these standards are expected to have a significant effect on the financial statements of the BPI Group, except the following as set out below:

- *PFRS 9, 'Financial instruments',* addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of PFRS 9 was issued in July 2014. It replaces the guidance in PAS 39 that relates to the classification and measurement of financial instruments. PFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income with no recycling to profit or loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in PAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. PFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under PAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The BPI Group is assessing the full impact of PFRS 9.
- *PFRS 15, 'Revenue from contracts with customers',* deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces PAS 18 'Revenue' and PAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The BPI Group is assessing the impact of PFRS 15.

NOTES TO FINANCIAL STATEMENTS (continued)

There are no other standards, amendments or interpretations that are not yet effective that have a material impact on the BPI Group.

2.3 Consolidation

The consolidated financial statements comprise the financial statements of the BPI Group as at December 31, 2014 and 2013. The subsidiaries financial statements are prepared for the same reporting year as the Parent Bank. The consolidated financial statements include the financial statements of the Parent Bank and the following subsidiaries as at December 31:

Subsidiaries	Country of incorporation	Principal activities	% of ownership	
			2014	2013
BPI Family Savings Bank, Inc.	Philippines	Banking	100	100
BPI Capital Corporation	Philippines	Investment house	100	100
BPI Direct Savings Bank, Inc.	Philippines	Banking	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 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 Foreign Exchange Corp.	Philippines	Foreign exchange	100	100
BPI Express Remittance Corp. USA	USA	Remittance	100	100
BPI Express Remittance Corp. Nevada	USA	Remittance	100	100
BPI Express Remittance Center HK (Ltd.)	Hong Kong	Remittance	100	100
Green Enterprises S. R. L. in Liquidation (formerly BPI Express Remittance Europe, S.p.A.)	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
		Financial management		
AF Holdings and Management Corp.	Philippines	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 (formerly BPI Leasing Corporation)	Philippines	Leasing	51	100
BPI Century Tokyo Rental Corporation (formerly BPI Rental Corporation)	Philippines	Rental	51	100
CityTrust Securities Corporation	Philippines	Securities dealer	51	100
BPI/MS Insurance Corporation	Philippines	Non-life insurance	50.85	50.85
BPI Globe BankKO, Inc.	Philippines	Banking	40	40

BPI has control over BPI Globe BankKO, Inc. since BPI is largely involved in key decisions concerning financial and operating policies and activities of, and provision of technological support and technical know-how to BPI Globe BankKO, Inc.

On December 23, 2014, BPI sold its 49% interest in BPI Leasing Corporation to Century Tokyo Leasing Corporation for a total consideration of P1,744 million, thereby bringing its remaining ownership interest to 51%. The BPI Group recognized an increase in non-controlling interest of P1,231 million and an increase in equity attributable to owners of the Parent Bank of P336 million. The name of BPI Leasing has also been changed to BPI Century Tokyo Lease and Finance Corporation as a consequence of the sale. In addition, the Parent Bank's effective ownership in BPI Century Tokyo Rental Corporation and CityTrust Securities Corporation, both wholly-owned subsidiaries of BPI Century Tokyo Lease and Finance Corporation, has been reduced to 51% each as at December 31, 2014.

The effect of change in the ownership interest in BPI Century Tokyo Lease and Finance Corporation on the equity attributable to owners of BPI Parent during the year is summarized as follows:

(In Millions of Pesos)	
Consideration received from non-controlling interest	1,744
Carrying amount of non-controlling interest sold, net of related cost	1,408
Excess of consideration received recognized in equity	336

At BPI Parent, the gain from sale recognized in the statement of income amounts to P1,428 million.

(a) Subsidiaries

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

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (continued)

(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.

2.4 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.

2.5 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 6).

2.6 Cash and cash equivalents

Cash and cash equivalents consist of Cash and other cash items, Due from Bangko Sentral ng Pilipinas (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.

2.7 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.

2.8 Financial assets

2.8.1 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. If the BPI Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

(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.

2.8.2 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.

NOTES TO FINANCIAL STATEMENTS (continued)

(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.

2.8.3 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.

2.8.4 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).

2.9 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 twelve 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.

2.10 Financial liabilities

2.10.1 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.

NOTES TO FINANCIAL STATEMENTS (continued)

2.10.2 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.

2.10.3 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.

2.11 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, 2014 and 2013.

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, 2014 and 2013.

NOTES TO FINANCIAL STATEMENTS (continued)

2.12 Classes of financial instruments

The BPI Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

Categories (as defined by PAS 39)	Classes (as determined by the BPI Group)			
	Main classes	Sub-classes		
Financial assets	Financial assets at fair value through profit or loss	- Trading securities	- Debt securities	
		- Derivative financial assets	- Equity securities	
		- 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 receivables	- Loans and advances to customers	- Loans to individuals (retail)	- Real estate mortgages
				- Auto loans
			- Loans to corporate entities	- Credit cards
			- Others	- 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		
		- Deposits from customers	- Demand	
			- Savings	
			- Time	
	Financial liabilities at amortized cost	- 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			

2.13 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.

2.14 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 does not qualify for hedge accounting are recognized immediately in the statement of income under "Trading gain/loss on securities".

2.15 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. Bank premises, furniture, fixtures and equipment with carrying value of P69 million were fully impaired as at December 31, 2014 (2013 - P56 million).

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.

NOTES TO FINANCIAL STATEMENTS (continued)

2.16 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.

2.17 Foreclosed assets

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

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

- (a) Investment property is accounted for using the cost model under PAS 40;
- (b) Bank-occupied property is accounted for using the cost model under PAS 16; and
- (c) Financial assets are classified as available-for-sale.

2.18 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 in "Miscellaneous assets" under Other resources in the consolidated financial statements. 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 and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationship.

- (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 in "Miscellaneous assets" under Other resources.

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.

2.19 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.

2.20 Borrowings and borrowing costs

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

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred. The BPI Group has no qualifying asset as at December 31, 2014 and 2013.

2.21 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.

2.22 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.

NOTES TO FINANCIAL STATEMENTS (continued)

2.23 Dividend income

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

2.24 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.

2.25 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.

2.26 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.

2.27 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.

2.28 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.

2.29 Employee benefits

(a) Pension obligations

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.

(b) 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.

NOTES TO FINANCIAL STATEMENTS (continued)

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.

(c) 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.

2.30 Capital funds

Common shares and preferred shares are classified as share capital.

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.

2.31 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.

2.32 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 and the BSP.

2.33 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 29).

2.34 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.

2.35 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.

2.36 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.

2.37 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.

2.38 Reclassification

Certain amounts have been reclassified in the statement of condition to conform with the current year's presentation. This is not considered material and did not change the amount of total resources as at December 31, 2013.

2.39 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.

NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 - Financial Risk and Capital Management

Risk management in the BPI Group covers all perceived areas of risk exposure, even as it continuously endeavors to uncover hidden risks. Capital management is understood to be a facet of risk management. The Board of Directors, through its Risk Management Committee (RMC), sets the BPI Group's management tone by specifying the parameters by which financial and business risks are to be taken and by allocating the appropriate capital for absorbing potential losses from such risks.

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 business 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 other funders and stakeholders.

To generate acceptable returns to its shareholders' capital, the BPI Group understands that it has to bear risk, 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 bad to be avoided. Risk-taking presents opportunities if risks are accounted, deliberately taken, and are kept within rationalized limits.

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

3.1 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 Group works with the Credit Committee in managing credit risk, and reports are regularly provided to the Board of Directors.

3.1.1 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.

3.1.2 Risk limit control and mitigation policies

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

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

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

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

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).

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.

(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.

NOTES TO FINANCIAL STATEMENTS (continued)

(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.

3.1.3 Impairment and provisioning policies

As described in Note 3.1.1, 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 2.9).

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

	Consolidated			
	2014		2013	
	Loans and advances (%)	Allowance for impairment (%)	Loans and advances (%)	Allowance for impairment (%)
Unclassified	98.14	0.77	97.61	0.81
Loans especially mentioned	0.26	5.35	0.34	5.46
Substandard	0.64	21.19	0.90	20.12
Doubtful	0.45	63.85	0.52	62.55
Loss	0.51	100.00	0.63	100.00
	100.00		100.00	

	Parent			
	2014		2013	
	Loans and advances (%)	Allowance for impairment (%)	Loans and advances (%)	Allowance for impairment (%)
Unclassified	98.61	0.75	97.99	0.84
Loans especially mentioned	0.16	6.75	0.28	5.37
Substandard	0.55	21.23	0.76	19.23
Doubtful	0.25	72.32	0.38	67.92
Loss	0.43	100.00	0.59	100.00
	100.00		100.00	

3.1.4 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	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Due from BSP	211,946	244,483	170,648	195,076
Due from other banks	22,227	17,070	15,429	8,789
Interbank loans receivable and securities purchased under agreements to resell (SPAR)	5,782	17,397	5,246	10,037
Financial assets at fair value through profit or loss				
Derivative financial assets	35,981	16,550	35,981	16,550
Trading securities - debt securities	15,247	4,334	6,620	2,626
Available-for-sale - debt securities	47,484	85,885	41,604	81,486
Held-to-maturity securities	209,409	96,172	193,001	85,900
Loans and advances, net	800,170	630,203	621,441	475,155
Other financial assets				
Accounts receivable, net	1,489	879	1,063	623
Other accrued interest and fees receivable	661	662	613	573
Sales contracts receivable, net	39	78	-	27
Rental deposits	366	335	304	280
Others, net	425	444	387	393
	1,351,226	1,114,492	1,092,337	877,515

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

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Undrawn loan commitments	154,257	120,792	148,215	114,960
Bills for collection	13,686	14,863	13,679	14,848
Unused letters of credit	12,196	13,117	12,196	13,117
Others	1,213	1,390	1,213	1,390
	181,352	150,162	175,303	144,315

The preceding table represents the maximum credit risk exposure at December 31, 2014 and 2013, 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 (2013 - 97%);
- Mortgage loans are backed by collateral; and
- The BPI Group continues to implement stringent selection process of granting loans and advances.

NOTES TO FINANCIAL STATEMENTS (continued)

3.1.5 Credit quality of loans and advances

Loans and advances are summarized as follows:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Neither past due nor impaired	793,702	624,220	617,395	471,920
Past due but not impaired	5,407	7,481	4,454	3,182
Impaired	14,767	11,119	8,770	8,916
	813,876	642,820	630,619	484,018
Allowance for impairment	(13,706)	(12,617)	(9,178)	(8,863)
	800,170	630,203	621,441	475,155

Impaired category as shown in the table above includes loan accounts which are individually (Note 3.1.5c) and collectively assessed for impairment.

The total consolidated impairment provision for loans and advances is P2,990 million (2013 - P1,886 million), of which P1,703 million (2013 - P1,334 million) represents provision for individually impaired loans and the remaining amount of P1,287 million (2013 - P552 million) represents the portfolio provision. Further information of the impairment allowance for loans and advances is provided in Note 13.

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 13.

(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 loans accounts in a portfolio to which an impairment has been allocated on a collective basis. Details of these accounts follow:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Corporate entities:				
Large corporate customers	554,372	414,136	534,073	396,663
Small and medium enterprises	88,187	80,369	55,268	50,916
Retail customers:				
Mortgages	119,759	102,118	152	147
Credit cards	25,712	22,215	25,367	22,059
Others	5,672	5,382	2,535	2,135
	793,702	624,220	617,395	471,920

(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

	2014				2013			
	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	541	292	2,057	2,890	175	226	1,623	2,024
Past due 31 - 90 days	262	148	996	1,406	81	144	888	1,113
Past due 91 - 180 days	466	241	47	754	122	224	1,628	1,974
Over 180 days	124	274	(41)	357	42	444	1,884	2,370
	1,393	955	3,059	5,407	420	1,038	6,023	7,481
Fair value of collateral	4,437				4,322			

Parent

	2014				2013			
	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	459	193	1,909	2,561	84	63	1,492	1,639
Past due 31 - 90 days	252	80	752	1,084	53	16	656	725
Past due 91 - 180 days	454	144	-	598	72	42	465	579
Over 180 days	76	135	-	211	-	98	141	239
	1,241	552	2,661	4,454	209	219	2,754	3,182
Fair value of collateral	1,881				319			

(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	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Corporate entities:				
Large corporate customers	3,825	4,661	3,438	4,078
Small and medium enterprises	4,919	4,864	3,333	3,376
Retail customers:				
Mortgages	893	6	5	6
Credit cards	1,427	1,370	1,423	1,370
Others	177	10	177	2
	11,241	10,911	8,376	8,832
Fair value of collateral	7,602	9,459	6,856	5,385

NOTES TO FINANCIAL STATEMENTS (continued)

3.1.6 Credit quality of other financial assets

a. Due from Bangko Sentral ng Pilipinas

Due from BSP are considered fully performing at December 31, 2014 and 2013. This account consists of:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Clearing account	173,954	130,617	156,348	118,476
Special deposit accounts (SDA)	37,992	113,866	14,300	76,600
	211,946	244,483	170,648	195,076

b. Due from other banks

Due from other banks are considered fully performing at December 31, 2014 and 2013. The table below presents the credit ratings of counterparty banks based on Standard & Poor's.

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
AA- to AA+	2,954	6,419	2,954	5,259
A- to A+	15,818	8,490	11,628	3,099
Lower than A-	45	38	44	7
Unrated	3,410	2,123	803	424
	22,227	17,070	15,429	8,789

c. Interbank loans receivable and securities purchased under agreement to resell

Interbank loans receivable are considered fully performing at December 31, 2014 and 2013. The table below presents the credit ratings of counterparty banks based on Standard & Poor's.

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Lower than A-	-	888	-	888
Unrated	5,282	4,991	5,246	4,991
	5,282	5,879	5,246	5,879

Securities purchased under agreements to resell includes reverse repurchase agreements amounting to P500 million and nil for the BPI Group and Parent Bank, respectively (2013 - P11,518 million and P4,158 million, respectively), which are made with a sovereign counterparty and are considered fully performing.

d. Derivative financial assets

The table below presents the Standard & Poor's credit ratings of counterparties for derivative financial assets at December 31, 2014 and 2013 presented in the consolidated and parent financial statements.

	Consolidated and Parent	
	2014	2013
	(In Millions of Pesos)	
AA- to AA+	383	692
A- to A+	35,536	14,395
Lower than A-	33	172
Unrated	29	1,291
	35,981	16,550

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, 2014 and 2013 based on Standard & Poor's:

At December 31, 2014

	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	1,521	212	280	2,013	1,521	194	173	1,888
AA- to AA+	1,251	6,011	5,438	12,700	1,251	5,887	5,153	12,291
A- to A+	122	6,327	4,845	11,294	122	5,395	4,351	9,868
Lower than A-	12,090	32,962	196,608	241,660	3,632	28,369	181,379	213,380
Unrated	263	1,972	2,238	4,473	94	1,759	1,945	3,798
	15,247	47,484	209,409	272,140	6,620	41,604	193,001	241,225

At December 31, 2013

	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	-	487	110	597	-	487	-	487
AA- to AA+	3,774	4,859	5,293	13,926	2,442	4,790	5,109	12,341
A- to A+	22	4,560	732	5,314	22	4,484	-	4,506
Lower than A-	353	73,040	89,229	162,622	38	69,833	79,983	149,854
Unrated	185	2,939	808	3,932	124	1,892	808	2,824
	4,334	85,885	96,172	186,391	2,626	81,486	85,900	170,012

f. Other financial assets

The BPI Group's other financial assets (shown under Other resources) at December 31, 2014 and 2013 consist mainly of sales contracts receivable, accounts receivable, accrued interest and fees receivable from various unrated counterparties with good credit standing.

NOTES TO FINANCIAL STATEMENTS (continued)

3.1.7 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, 2014, the BPI Group's foreclosed collaterals have carrying amount of P5,018 million (2013 - P5,852 million). The related foreclosed collaterals have aggregate fair value of P6,861 million (2013 - P7,673 million). Foreclosed collaterals include real estate (land, building, and improvements), auto or chattel, bond and stocks.

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

3.1.8 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	211,946	-	-	-	-	-	211,946
Due from other banks	22,227	-	-	-	-	-	22,227
Interbank loans receivable and SPAR	5,782	-	-	-	-	-	5,782
Financial assets at fair value through profit or loss							
Derivative financial assets	35,941	-	10	-	30	-	35,981
Trading securities - debt securities	372	-	6	36	14,833	-	15,247
Available-for-sale - debt securities	14,814	92	-	209	32,369	-	47,484
Held-to-maturity securities	7,953	-	-	502	200,954	-	209,409
Loans and advances, net	95,550	74,991	167,908	179,477	295,950	(13,706)	800,170
Other financial assets							
Accounts receivable, net	-	-	-	-	2,526	(1,037)	1,489
Other accrued interest and fees receivable	-	-	-	-	661	-	661
Sales contracts receivable, net	-	-	-	-	49	(10)	39
Rental deposits	-	-	-	-	366	-	366
Others, net	-	-	-	-	523	(98)	425
At December 31, 2014	394,585	75,083	167,924	180,224	548,261	(14,851)	1,351,226

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
(In Millions of Pesos)							
Due from BSP	244,483	-	-	-	-	-	244,483
Due from other banks	17,070	-	-	-	-	-	17,070
Interbank loans receivable and SPAR	17,397	-	-	-	-	-	17,397
Financial assets at fair value through profit or loss							
Derivative financial assets	16,373	-	101	-	76	-	16,550
Trading securities - debt securities	245	-	2	3	4,084	-	4,334
Available-for-sale - debt securities	16,886	-	-	300	68,699	-	85,885
Held-to-maturity securities	855	-	-	502	94,815	-	96,172
Loans and advances, net	50,740	62,670	139,187	173,326	216,897	(12,617)	630,203
Other financial assets							
Accounts receivable, net	-	-	-	-	2,276	(1,397)	879
Other accrued interest and fees receivable	-	-	-	-	662	-	662
Sales contracts receivable, net	-	-	-	-	82	(4)	78
Rental deposits	-	-	-	-	335	-	335
Others, net	-	-	-	-	466	(22)	444
At December 31, 2013	364,049	62,670	139,290	174,131	388,392	(14,040)	1,114,492

NOTES TO FINANCIAL STATEMENTS (continued)

Parent

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
(In Millions of Pesos)							
Due from BSP	170,648	-	-	-	-	-	170,648
Due from other banks	15,429	-	-	-	-	-	15,429
Interbank loans receivable and SPAR	5,246	-	-	-	-	-	5,246
Financial assets at fair value through profit or loss							
Derivative financial assets	35,941	-	10	-	30	-	35,981
Trading securities - debt securities	351	-	-	-	6,269	-	6,620
Available-for-sale - debt securities	13,562	92	-	199	27,751	-	41,604
Held-to-maturity securities	6,826	-	-	502	185,673	-	193,001
Loans and advances, net	93,098	32,940	163,173	86,753	254,655	(9,178)	621,441
Other financial assets							
Accounts receivable, net	-	-	-	-	1,964	(901)	1,063
Other accrued interest and fees receivable	-	-	-	-	613	-	613
Sales contracts receivable, net	-	-	-	-	10	(10)	-
Rental deposits	-	-	-	-	304	-	304
Others, net	-	-	-	-	477	(90)	387
At December 31, 2014	341,101	33,032	163,183	87,454	477,746	(10,179)	1,092,337

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
(In Millions of Pesos)							
Due from BSP	195,076	-	-	-	-	-	195,076
Due from other banks	8,789	-	-	-	-	-	8,789
Interbank loans receivable and SPAR	10,037	-	-	-	-	-	10,037
Financial assets at fair value through profit or loss							
Derivative financial assets	16,373	-	101	-	76	-	16,550
Trading securities - debt securities	245	-	-	-	2,381	-	2,626
Available-for-sale - debt securities	15,816	-	-	196	65,474	-	81,486
Held-to-maturity securities	95	-	-	502	85,303	-	85,900
Loans and advances, net	42,952	26,533	135,394	87,738	191,401	(8,863)	475,155
Other financial assets							
Accounts receivable, net	-	-	-	-	1,875	(1,252)	623
Other accrued interest and fees receivable	-	-	-	-	573	-	573
Sales contracts receivable, net	-	-	-	-	29	(2)	27
Rental deposits	-	-	-	-	280	-	280
Others, net	-	-	-	-	407	(14)	393
At December 31, 2013	289,383	26,533	135,495	88,436	347,799	(10,131)	877,515

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.

3.2 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 its 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 exposure is managed by the Risk Management Office (RMO), headed by the Bank's Chief Risk Officer (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.

As part of the management of market risk, the BPI Group undertakes various hedging strategies. The BPI Group also enters into interest rate swaps to match the interest rate risk associated with fixed-rate long-term debt securities.

NOTES TO FINANCIAL STATEMENTS (continued)

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 strategy.

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	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Local fixed-income	230	984	206	911
Foreign fixed-income	66	118	63	114
Foreign exchange	44	33	14	10
Derivatives	75	78	75	78
Equity securities	26	14	-	-
Mutual fund	19	26	-	-
	460	1,253	358	1,113

3.2.1 Foreign exchange risk

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, 2014 and 2013. 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, 2014						
Financial Assets						
Cash and other cash items	1,815	72	79	16	-	1,982
Due from other banks	13,520	755	2,957	1,980	-	19,212
Interbank loans receivable and SPAR	2,705	-	-	-	-	2,705
Financial assets at fair value through profit or loss						
Derivative financial assets	4,777	-	161	636	-	5,574
Trading securities	1,565	-	55	375	-	1,995
Available-for-sale securities	22,239	-	1,193	107	-	23,539
Held-to-maturity securities	37,382	-	1,530	980	-	39,892
Loans and advances, net	97,772	650	69	20	(451)	98,060
Others financial assets						
Accounts receivable, net	79	-	15	5	(11)	88
Other accrued interest and fees receivable	149	-	125	47	-	321
Others	-	-	-	-	-	-
Total financial assets	182,003	1,477	6,184	4,166	(462)	193,368
Financial Liabilities						
Deposit liabilities	154,687	1,152	3,390	1,029	-	160,258
Derivative financial liabilities	3,699	-	171	641	-	4,511
Bills payable	26,077	-	-	-	-	26,077
Due to BSP and other banks	70	-	-	-	-	70
Manager's checks and demand drafts outstanding	181	-	15	-	-	196
Other financial liabilities						
Accounts payable	119	-	38	1	-	158
Others	-	-	-	-	-	-
Total financial liabilities	184,833	1,152	3,614	1,671	-	191,270
Net on-balance sheet financial position (in Philippine Peso)	(2,830)	325	2,570	2,495	(462)	2,098

NOTES TO FINANCIAL STATEMENTS (continued)

	USD	JPY	EUR	GBP	Less - allowance	Total
(In Millions of Pesos)						
As at December 31, 2013						
Financial Assets						
Cash and other cash items	1,691	55	89	20	-	1,855
Due from other banks	13,746	747	838	1,185	-	16,516
Interbank loans receivable and SPAR	888	-	-	-	-	888
Financial assets at fair value through profit or loss						
Derivative financial assets	2,009	-	116	346	-	2,471
Trading securities	3,796	-	-	-	-	3,796
Available-for-sale securities	15,782	-	473	133	-	16,388
Held-to-maturity securities	29,653	-	1,717	657	-	32,027
Loans and advances, net	73,989	713	169	31	(481)	74,421
Others financial assets						
Accounts receivable, net	78	-	59	1	(9)	129
Other accrued interest and fees receivable	99	-	111	45	-	255
Others	-	-	-	-	-	-
Total financial assets	141,731	1,515	3,572	2,418	(490)	148,746
Financial Liabilities						
Deposit liabilities	128,301	1,084	3,056	696	-	133,137
Derivative financial liabilities	2,062	-	144	346	-	2,552
Bills payable	17,758	-	37	-	-	17,795
Due to BSP and other banks	87	-	-	-	-	87
Manager's checks and demand drafts outstanding	49	-	4	2	-	55
Other financial liabilities						
Accounts payable	267	-	75	1	-	343
Others	1,565	11	102	6	-	1,684
Total financial liabilities	150,089	1,095	3,418	1,051	-	155,653
Net on-balance sheet financial position (in Philippine Peso)	(8,358)	420	154	1,367	(490)	(6,907)

Parent

	USD	JPY	EUR	GBP	Less - allowance	Total
(In Millions of Pesos)						
As at December 31, 2014						
Financial Assets						
Cash and other cash items	1,659	71	71	14	-	1,815
Due from other banks	8,063	751	2,779	1,445	-	13,038
Interbank loans receivable and SPAR	2,705	-	-	-	-	2,705
Financial assets at fair value through profit or loss						
Derivative financial assets	4,777	-	161	636	-	5,574
Trading securities	1,565	-	55	375	-	1,995
Available-for-sale securities	18,264	-	1,193	107	-	19,564
Held-to-maturity securities	34,630	-	1,530	-	-	36,160
Loans and advances, net	97,593	650	69	-	(449)	97,863
Other financial assets						
Accounts receivable, net	79	-	-	-	(11)	68
Other accrued interest and fees receivable	149	-	125	32	-	306
Others	-	-	-	-	-	-
Total financial assets	169,484	1,472	5,983	2,609	(460)	179,088
Financial Liabilities						
Deposit liabilities	142,702	1,152	3,270	720	-	147,844
Derivative financial liabilities	3,699	-	171	641	-	4,511
Bills payable	26,063	-	-	-	-	26,063
Due to BSP and other banks	70	-	-	-	-	70
Manager's checks and demand drafts outstanding	180	-	15	-	-	195
Other financial liabilities						
Accounts payable	116	-	20	-	-	136
Others	-	-	-	-	-	-
Total financial liabilities	172,830	1,152	3,476	1,361	-	178,819
Net on-balance sheet financial position (in Philippine Peso)	(3,346)	320	2,507	1,248	(460)	269

NOTES TO FINANCIAL STATEMENTS (continued)

	USD	JPY	EUR	GBP	Less - allowance	Total
(In Millions of Pesos)						
As at December 31, 2013						
Financial Assets						
Cash and other cash items	1,535	55	78	18	-	1,686
Due from other banks	5,864	743	698	243	-	7,548
Interbank loans receivable and SPAR	888	-	-	-	-	888
Financial assets at fair value through profit or loss						
Derivative financial assets	2,009	-	116	346	-	2,471
Trading securities	2,464	-	-	-	-	2,464
Available-for-sale securities	15,094	-	473	133	-	15,700
Held-to-maturity securities	27,705	-	1,718	-	-	29,423
Loans and advances, net	73,989	713	169	7	(479)	74,399
Other financial assets						
Accounts receivable, net	68	-	-	-	(9)	59
Other accrued interest and fees receivable	99	-	111	14	-	224
Others	-	-	-	-	-	-
Total financial assets	129,715	1,511	3,363	761	(488)	134,862
Financial Liabilities						
Deposit liabilities	116,608	1,084	3,023	414	-	121,129
Derivative financial liabilities	2,062	-	144	346	-	2,552
Bills payable	17,758	-	-	-	-	17,758
Due to BSP and other banks	87	-	-	-	-	87
Manager's checks and demand drafts outstanding	30	-	4	2	-	36
Other financial liabilities						
Accounts payable	252	-	2	-	-	254
Others	1,565	11	102	6	-	1,684
Total financial liabilities	138,362	1,095	3,275	768	-	143,500
Net on-balance sheet financial position (in Philippine Peso)	(8,647)	416	88	(7)	(488)	(8,638)

3.2.2 Interest rate risk

There are two types of interest rate risk: (i) fair value interest risk and (ii) cash flow interest risk. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The BPI Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value which affects mainly the BPI Group's trading securities portfolio and cash flow risks on available-for-sale securities portfolio which is carried at market.

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 repricing risk, which reflects the fact that the BPI Group's assets and liabilities are of different maturities and are priced at different interest rates. Interest margins may increase as a result of such changes but may also result in losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored monthly by the FRMC.

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				Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	
(In Millions of Pesos)					
As at December 31, 2014					
Financial Assets					
Cash and other cash items	38,427	-	-	-	38,427
Due from BSP	-	-	-	211,946	211,946
Due from other banks	-	-	-	22,227	22,227
Interbank loans receivable and SPAR	-	-	-	5,782	5,782
Financial assets at fair value through profit or loss					
Derivative financial assets	12,607	20,224	3,150	-	35,981
Trading securities - debt securities	-	-	-	15,247	15,247
Available-for-sale - debt securities	6,938	-	-	40,546	47,484
Held-to-maturity securities	4	-	-	209,405	209,409
Loans and advances, net	611,809	43,678	81,386	63,297	800,170
Other financial assets					
Accounts receivable, net	-	-	-	1,489	1,489
Other accrued interest and fees receivable	-	-	-	661	661
Sales contracts receivable, net	-	-	-	39	39
Rental deposits	-	-	-	366	366
Others, net	-	-	-	425	425
Total financial assets	669,785	63,902	84,536	571,430	1,389,653
Financial Liabilities					
Deposit liabilities	584,042	509,929	9,440	72,802	1,176,213
Derivative financial liabilities	839	21,769	12,238	-	34,846
Bills payable	-	-	-	32,993	32,993
Due to BSP and other banks	-	-	-	687	687
Manager's checks and demand drafts outstanding	-	-	-	8,353	8,353
Other financial liabilities					
Accounts payable	-	-	-	4,735	4,735
Outstanding acceptances	-	-	-	947	947
Deposits on lease contract	-	-	-	1,974	1,974
Dividends payable	-	-	-	-	-
Others	-	-	-	1,838	1,838
Total financial liabilities	584,881	531,698	21,678	124,329	1,262,586
Total interest gap	84,904	(467,796)	62,858	447,101	127,067

NOTES TO FINANCIAL STATEMENTS (continued)

	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
(In Millions of Pesos)					
As at December 31, 2013					
Financial Assets					
Cash and other cash items	25,696	-	-	-	25,696
Due from BSP	-	-	-	244,483	244,483
Due from other banks	-	-	-	17,070	17,070
Interbank loans receivable and SPAR	-	-	-	17,397	17,397
Financial assets at fair value through profit or loss					
Derivative financial assets	13,100	665	2,785	-	16,550
Trading securities - debt securities	223	-	-	4,111	4,334
Available-for-sale - debt securities	9,265	-	-	76,620	85,885
Held-to-maturity securities	4	-	-	96,168	96,172
Loans and advances, net	518,048	22,860	45,072	44,223	630,203
Other financial assets					
Accounts receivable, net	-	-	-	879	879
Other accrued interest and fees receivable	-	-	-	662	662
Sales contracts receivable, net	-	-	-	78	78
Rental deposits	-	-	-	335	335
Others, net	-	-	-	444	444
Total financial assets	566,336	23,525	47,857	502,470	1,140,188
Financial Liabilities					
Deposit liabilities	460,692	513,541	14,353	-	988,586
Derivative financial liabilities	12,929	719	2,712	-	16,360
Bills payable	-	-	-	26,179	26,179
Due to BSP and other banks	-	-	-	2,051	2,051
Manager's checks and demand drafts outstanding	-	-	-	7,183	7,183
Other financial liabilities					
Accounts payable	-	-	-	3,551	3,551
Outstanding acceptances	-	-	-	1,677	1,677
Deposits on lease contract	-	-	-	2,076	2,076
Dividends payable	-	-	-	3,201	3,201
Others	-	-	-	1,607	1,607
Total financial liabilities	473,621	514,260	17,065	47,525	1,052,471
Total interest gap	92,715	(490,735)	30,792	454,945	87,717

Parent

	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
(In Millions of Pesos)					
As at December 31, 2014					
Financial Assets					
Cash and other cash items	37,292	-	-	-	37,292
Due from BSP	-	-	-	170,648	170,648
Due from other banks	-	-	-	15,429	15,429
Interbank loans receivable and SPAR	-	-	-	5,246	5,246
Financial assets at fair value through profit or loss					
Derivative financial assets	12,607	20,224	3,150	-	35,981
Trading securities - debt securities	-	-	-	6,620	6,620
Available-for-sale - debt securities	6,938	-	-	34,666	41,604
Held-to-maturity securities	4	-	-	192,997	193,001
Loans and advances, net	531,154	19,846	44,503	25,938	621,441
Other financial assets					
Accounts receivable, net	-	-	-	1,063	1,063
Other accrued interest and fees receivable	-	-	-	613	613
Sales contracts receivable, net	-	-	-	-	-
Rental deposits	-	-	-	304	304
Others, net	-	-	-	387	387
Total financial assets	587,995	40,070	47,653	453,911	1,129,629
Financial Liabilities					
Deposit liabilities	447,239	434,227	-	71,215	952,681
Derivative financial liabilities	839	21,769	12,238	-	34,846
Bills payable	-	-	-	26,288	26,288
Due to BSP and other banks	-	-	-	688	688
Manager's checks and demand drafts outstanding	-	-	-	6,664	6,664
Other financial liabilities					
Accounts payable	-	-	-	3,502	3,502
Outstanding acceptances	-	-	-	947	947
Deposits on lease contract	-	-	-	-	-
Dividends payable	-	-	-	-	-
Others	-	-	-	1,694	1,694
Total financial liabilities	448,078	455,996	12,238	110,998	1,027,310
Total interest gap	139,917	(415,926)	35,415	342,913	102,319

NOTES TO FINANCIAL STATEMENTS (continued)

	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
(In Millions of Pesos)					
As at December 31, 2013					
Financial Assets					
Cash and other cash items	24,888	-	-	-	24,888
Due from BSP	-	-	-	195,076	195,076
Due from other banks	-	-	-	8,789	8,789
Interbank loans receivable and SPAR	-	-	-	10,037	10,037
Financial assets at fair value through profit or loss					
Derivative financial assets	13,100	665	2,785	-	16,550
Trading securities - debt securities	222	-	-	2,404	2,626
Available-for-sale - debt securities	9,264	-	-	72,222	81,486
Held-to-maturity securities	3	-	-	85,897	85,900
Loans and advances, net	447,055	6,196	12,475	9,429	475,155
Other financial assets					
Accounts receivable, net	-	-	-	623	623
Other accrued interest and fees receivable	-	-	-	573	573
Sales contracts receivable, net	-	-	-	27	27
Rental deposits	-	-	-	280	280
Others, net	-	-	-	393	393
Total financial assets	494,532	6,861	15,260	385,750	902,403
Financial Liabilities					
Deposit liabilities	310,213	354,198	1,451	119,541	785,403
Derivative financial liabilities	12,929	719	2,712	-	16,360
Bills payable	-	-	-	18,990	18,990
Due to BSP and other banks	-	-	-	2,052	2,052
Manager's checks and demand drafts outstanding	-	-	-	6,026	6,026
Other financial liabilities					
Accounts payable	-	-	-	2,370	2,370
Outstanding acceptances	-	-	-	1,677	1,677
Deposits on lease contract	-	-	-	-	-
Dividends payable	-	-	-	3,201	3,201
Others	-	-	-	1,498	1,498
Total financial liabilities	323,142	354,917	4,163	155,355	837,577
Total interest gap	171,390	(348,056)	11,097	230,395	64,826

In order to measure the interest rate risk in the banking book, the BPI Group employs Balance Sheet VaR (BSVaR) which measures impact of interest rate movements on the economic value of equity. 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. An asset or liability is considered to be rate-sensitive if the interest rate applied to the outstanding principal balance changes (either contractually or because of a change in a reference rate) during the interval.

The BSVaR 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. In consideration of the static framework, and the fact that income from the positions is accrued rather than generated from marking-to-market, the probable loss (that may be exceeded 1% of the time) that is indicated by the BSVaR is not realized in accounting income.

The average BSVaR for the banking or non-trading book are as follows:

	Consolidated		Parent	
	2014	2013	2014	2013
(In Millions of Pesos)				
BSVaR	1,932	1,511	1,627	1,325

3.3 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.

3.3.1 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 19);
- 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 3.3.3 and 3.3.4) 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.

3.3.2 Funding approach

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

NOTES TO FINANCIAL STATEMENTS (continued)

3.3.3 Non-derivative cash flows

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

Consolidated

	Over 1 up to 3			Total
	Up to 1 year	years	Over 3 years	
(In Millions of Pesos)				
As at December 31, 2014				
Financial Assets				
Cash and other cash items	38,427	-	-	38,427
Due from BSP	211,971	-	-	211,971
Due from other banks	22,227	-	-	22,227
Interbank loans receivable and securities under agreements to resell (SPAR)	3,045	2,733	225	6,003
Financial assets at fair value through profit or loss				
Trading securities - debt securities	10,280	380	7,356	18,016
Available-for-sale securities - debt securities	7,933	8,709	45,581	62,223
Held-to-maturity securities	28,853	73,239	186,025	288,117
Loans and advances, net	391,288	101,131	314,765	807,184
Other financial assets				
Accounts receivable, net	1,489	-	-	1,489
Other accrued interest and fees receivable	661	-	-	661
Sales contracts receivable, net	39	-	-	39
Rental deposits	366	-	-	366
Others, net	425	-	-	425
Total financial assets	717,004	186,192	553,952	1,457,148
Financial Liabilities				
Deposit liabilities	660,774	513,147	9,762	1,183,683
Bills payable	36,109	4,968	428	41,505
Due to BSP and other banks	687	-	-	687
Manager's checks and demand drafts outstanding	8,353	-	-	8,353
Other financial liabilities				
Accounts payable	4,735	-	-	4,735
Outstanding acceptances	947	-	-	947
Deposits on lease contract	1,974	-	-	1,974
Dividends payable	-	-	-	-
Others	1,838	-	-	1,838
Total financial liabilities	715,417	518,115	10,190	1,243,722
Total maturity gap	1,587	(331,923)	543,762	213,426

	Over 1 up to 3			Total
	Up to 1 year	years	Over 3 years	
(In Millions of Pesos)				
As at December 31, 2013				
Financial Assets				
Cash and other cash items	25,696	-	-	25,696
Due from BSP	244,606	-	-	244,606
Due from other banks	17,070	-	-	17,070
Interbank loans receivable and securities under agreements to resell (SPAR)	14,605	2,761	245	17,611
Financial assets at fair value through profit or loss				
Trading securities - debt securities	3,827	126	605	4,558
Available-for-sale securities - debt securities	9,517	15,257	87,745	112,519
Held-to-maturity securities	17,492	26,936	104,272	148,700
Loans and advances, net	392,546	82,158	205,191	679,895
Other financial assets				
Accounts receivable, net	879	-	-	879
Other accrued interest and fees receivable	662	-	-	662
Sales contracts receivable, net	27	51	-	78
Rental deposits	335	-	-	335
Others, net	444	-	-	444
Total financial assets	727,706	127,289	398,058	1,253,053
Financial Liabilities				
Deposit liabilities	290,777	278,941	419,912	989,630
Bills payable	25,466	598	367	26,431
Due to BSP and other banks	2,051	-	-	2,051
Manager's checks and demand drafts outstanding	7,183	-	-	7,183
Other financial liabilities				
Accounts payable	3,551	-	-	3,551
Outstanding acceptances	1,677	-	-	1,677
Deposits on lease contract	2,076	-	-	2,076
Dividends payable	3,201	-	-	3,201
Others	1,607	-	-	1,607
Total financial liabilities	337,589	279,539	420,279	1,037,407
Total maturity gap	390,117	(152,250)	(22,221)	215,646

NOTES TO FINANCIAL STATEMENTS (continued)

Parent

	Over 1 up to 3			Total
	Up to 1 year	years	Over 3 years	
(In Millions of Pesos)				
As at December 31, 2014				
Financial Assets				
Cash and other cash items	37,292	-	-	37,292
Due from BSP	170,655	-	-	170,655
Due from other banks	15,429	-	-	15,429
Interbank loans receivable and securities under agreements to resell (SPAR)	2,493	2,733	225	5,451
Financial assets at fair value through profit or loss				
Trading securities - debt securities	2,088	327	6,670	9,085
Available-for-sale - debt securities	5,152	7,305	42,829	55,286
Held-to-maturity securities	20,678	69,723	169,533	259,934
Loans and advances, net	376,748	87,261	166,217	630,226
Other financial assets, net				
Accounts receivable, net	1,063	-	-	1,063
Other accrued interest and fees receivable	613	-	-	613
Sales contracts receivable, net	-	-	-	-
Rental deposits	304	-	-	304
Others, net	387	-	-	387
Total financial assets	632,902	167,349	385,474	1,185,725
Financial Liabilities				
Deposit liabilities	517,730	435,571	-	953,301
Bills payable	27,991	439	396	28,826
Due to BSP and other banks	688	-	-	688
Manager's checks and demand drafts outstanding	6,664	-	-	6,664
Other financial liabilities				
Accounts payable	3,502	-	-	3,502
Outstanding acceptances	947	-	-	947
Deposits on lease contracts	-	-	-	-
Dividends payable	-	-	-	-
Others	1,694	-	-	1,694
Total financial liabilities	559,216	436,010	396	995,622
Total maturity gap	73,686	(268,661)	385,078	190,103

	Over 1 up to 3			Total
	Up to 1 year	years	Over 3 years	
(In Millions of Pesos)				
As at December 31, 2013				
Financial Assets				
Cash and other cash items	24,888	-	-	24,888
Due from BSP	195,161	-	-	195,161
Due from other banks	8,789	-	-	8,789
Interbank loans receivable and securities under agreements to resell (SPAR)	7,238	2,761	245	10,244
Financial assets at fair value through profit or loss				
Trading securities - debt securities	2,459	38	220	2,717
Available-for-sale - debt securities	7,673	14,907	84,882	107,462
Held-to-maturity securities	14,925	24,185	93,883	132,993
Loans and advances, net	348,050	42,397	126,488	516,935
Other financial assets, net				
Accounts receivable, net	623	-	-	623
Other accrued interest and fees receivable	573	-	-	573
Sales contracts receivable, net	27	-	-	27
Rental deposits	280	-	-	280
Others, net	393	-	-	393
Total financial assets	611,079	84,288	305,718	1,001,085
Financial Liabilities				
Deposit liabilities	230,468	222,030	333,045	785,543
Bills payable	18,215	560	319	19,094
Due to BSP and other banks	2,052	-	-	2,052
Manager's checks and demand drafts outstanding	6,026	-	-	6,026
Unsecured subordinated debt	-	-	-	-
Other financial liabilities				
Accounts payable	2,370	-	-	2,370
Outstanding acceptances	1,677	-	-	1,677
Deposits on lease contracts	-	-	-	-
Dividends payable	3,201	-	-	3,201
Others	1,498	-	-	1,498
Total financial liabilities	265,507	222,590	333,364	821,461
Total maturity gap	345,572	(138,302)	(27,646)	179,624

NOTES TO FINANCIAL STATEMENTS (continued)

3.3.4 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

	Over 1 up to			Total
	Up to 1 year	3 years	Over 3 years	
2014	(In Millions of Pesos)			
Interest rate swap contracts - held for trading				
- Inflow	41	9,718	2,815	12,574
- Outflow	(58)	(9,951)	(2,813)	(12,822)
- Net inflow (outflow)	(17)	(233)	2	(248)
Non-deliverable forwards and swaps - held for trading				
- Inflow	32,824	8,731	-	41,555
- Outflow	(32,836)	(8,456)	-	(41,292)
- Net inflow	(12)	275	-	263
2013	(In Millions of Pesos)			
Interest rate swap contracts - held for trading				
- Inflow	137	615	2,732	3,484
- Outflow	(133)	(643)	(2,712)	(3,488)
- Net inflow (outflow)	4	(28)	20	(4)
Non-deliverable forwards and swaps - held for trading				
- Inflow	5,559	11,900	-	17,459
- Outflow	(5,453)	(11,879)	-	(17,332)
- Net inflow	106	21	-	127

(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, currency swaps and spot contracts. 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

	Over 1 up to			Total
	Up to 1 year	3 years	Over 3 years	
	(In Millions of Pesos)			
Foreign exchange derivatives - held for trading				
2014				
- Inflow	110,902	12,501	-	123,403
- Outflow	(110,954)	(11,396)	-	(122,350)
- Net inflow (outflow)	(52)	1,105	-	1,053
2013				
- Inflow	77,495	622	-	78,117
- Outflow	(77,456)	(665)	-	(78,121)
- Net inflow (outflow)	39	(43)	-	(4)

3.4 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	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Financial assets				
Cash and other cash items	38,427	25,696	38,427	25,696
Due from BSP	211,946	244,483	211,946	244,483
Due from other banks	22,227	17,070	22,227	17,070
Interbank loans receivable and SPAR	5,782	17,397	5,782	17,397
Held-to-maturity securities	209,409	96,172	220,292	104,563
Loans and advances, net	800,170	630,203	815,038	659,885
Other financial assets				
Accounts receivable, net	1,489	879	1,489	879
Other accrued interest and fees receivable	661	662	661	662
Sales contracts receivable, net	39	78	39	78
Rental deposits	366	335	366	335
Others, net	425	444	425	444
Financial liabilities				
Deposit liabilities	1,176,213	988,586	1,175,367	963,463
Bills payable	32,993	26,179	32,985	26,352
Due to BSP and other banks	687	2,051	687	2,051
Manager's checks and demand drafts outstanding	8,353	7,183	8,353	7,183
Other financial liabilities				
Accounts payable	4,787	3,551	4,787	3,551
Deposits on lease contract	1,974	2,076	1,974	2,076
Outstanding acceptances	947	1,677	947	1,677
Dividends payable	-	3,201	-	3,201
Others	1,838	1,607	1,838	1,607

NOTES TO FINANCIAL STATEMENTS (continued)

Parent

	Carrying amount		Fair value	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Financial assets				
Cash and other cash items	37,292	24,888	37,292	24,888
Due from BSP	170,648	195,076	170,648	195,076
Due from other banks	15,429	8,789	15,429	8,789
Interbank loans receivable and SPAR	5,246	10,037	5,246	10,037
Held-to-maturity securities	193,001	85,900	202,888	93,586
Loans and advances, net	621,441	475,155	621,097	488,832
Other financial assets				
Accounts receivable, net	1,063	623	1,063	623
Other accrued interest and fees receivable	613	573	613	573
Sales contracts receivable, net	-	27	-	27
Rental deposits	304	280	304	280
Others, net	387	393	387	393
Financial liabilities				
Deposit liabilities	952,681	785,403	949,453	710,719
Bills payable	26,288	18,990	26,280	19,022
Due to BSP and other banks	688	2,052	688	2,052
Manager's checks and demand drafts outstanding	6,664	6,026	6,664	6,026
Other financial liabilities				
Accounts payable	3,502	2,370	3,502	2,370
Outstanding acceptances	947	1,677	947	1,677
Deposit on lease contracts	-	-	-	-
Dividends payable	-	3,201	-	3,201
Others	1,694	1,498	1,694	1,498

(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.

3.5 Fair value hierarchy

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

Consolidated

2014	Fair value		Total
	Level 1	Level 2	
	(In Millions of Pesos)		
Recurring measurements			
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	35,981	35,981
Trading securities			
- Debt securities	14,932	315	15,247
- Equity securities	615	-	615
Available-for-sale financial assets			
- Debt securities	43,750	3,734	47,484
- Equity securities	2,216	1,514	3,730
	61,513	41,544	103,057
Financial liabilities			
Derivative financial liabilities	-	34,846	34,846
Non-recurring measurements			
Assets held for sale, net	-	3,033	3,033

NOTES TO FINANCIAL STATEMENTS (continued)

2014	Fair value		Total
	Level 1	Level 2	
Fair values disclosed			
Financial assets			
Cash and other cash items	-	38,427	38,427
Due from BSP	-	211,946	211,946
Due from other banks	-	22,227	22,227
Interbank loans receivable and SPAR	-	5,782	5,782
Held-to-maturity securities	219,648	644	220,292
Loans and advances, net	-	815,038	815,038
Other financial assets			
Accounts receivable, net	-	1,489	1,489
Other accrued interest and fees receivable	-	661	661
Sales contracts receivable, net	-	39	39
Rental deposits	-	366	366
Others, net	-	425	425
Financial liabilities			
Deposit liabilities	-	1,175,367	1,175,367
Bills payable	-	32,985	32,985
Due to BSP and other banks	-	687	687
Manager's checks and demand drafts outstanding	-	8,353	8,353
Other financial liabilities			
Accounts payable	-	4,787	4,787
Outstanding acceptances	-	947	947
Deposits on lease contract	-	1,974	1,974
Dividends payable	-	-	-
Others	-	1,838	1,838
Non-financial assets			
Investment properties	-	2,057	2,057

2013	Fair value		Total
	Level 1	Level 2	
(In Millions of Pesos)			
Recurring measurements			
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	16,550	16,550
Trading securities			
- Debt securities	3,926	408	4,334
- Equity securities	263	-	263
Available-for-sale financial assets			
- Debt securities	74,208	11,677	85,885
- Equity securities	1,285	-	1,285
	79,682	28,635	108,317
Financial liabilities			
Derivative financial liabilities	-	16,360	16,360
Non-recurring measurements			
Assets held for sale, net	-	3,078	3,078

2013	Fair value		Total
	Level 1	Level 2	
Fair values disclosed			
Financial assets			
Cash and other cash items	-	25,696	25,696
Due from BSP	-	244,483	244,483
Due from other banks	-	17,070	17,070
Interbank loans receivable and SPAR	-	17,397	17,397
Held-to-maturity securities	104,563	-	104,563
Loans and advances, net	-	659,885	659,885
Other financial assets			
Accounts receivable, net	-	879	879
Other accrued interest and fees receivable	-	662	662
Sales contracts receivable, net	-	78	78
Rental deposits	-	335	335
Others, net	-	444	444
Financial liabilities			
Deposit liabilities	-	963,463	963,463
Bills payable	-	26,352	26,352
Due to BSP and other banks	-	2,051	2,051
Manager's checks and demand drafts outstanding	-	7,183	7,183
Other financial liabilities			
Accounts payable	-	3,551	3,551
Outstanding acceptances	-	1,677	1,677
Deposits on lease contract	-	2,076	2,076
Dividends payable	-	3,201	3,201
Others	-	1,607	1,607
Non-financial assets			
Investment properties	-	3,289	3,289

Parent

2014	Fair value		Total
	Level 1	Level 2	
(In Millions of Pesos)			
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	35,981	35,981
Trading securities - debt securities	6,475	145	6,620
Available-for-sale financial assets			
- Debt securities	38,435	3,169	41,604
- Equity securities	203	-	203
	45,113	39,295	84,408
Financial liabilities			
Derivative financial liabilities	-	34,846	34,846
Non-recurring measurements			
Assets held for sale, net	-	1,865	1,865

NOTES TO FINANCIAL STATEMENTS (continued)

2014	Fair value		Total
	Level 1	Level 2	
Fair values disclosed			
Financial assets			
Cash and other cash items	-	37,292	37,292
Due from BSP	-	170,648	170,648
Due from other banks	-	15,429	15,429
Interbank loans receivable and SPAR	-	5,246	5,246
Held-to-maturity securities	202,244	644	202,888
Loans and advances, net	-	621,097	621,097
Other financial assets			
Accounts receivable, net	-	1,063	1,063
Other accrued interest and fees receivable	-	613	613
Sales contracts receivable, net	-	-	-
Rental deposits	-	294	294
Others, net	-	387	387
Financial liabilities			
Deposit liabilities	-	949,453	949,453
Bills payable	-	26,280	26,280
Due to BSP and other banks	-	688	688
Manager's checks and demand drafts outstanding	-	6,664	6,664
Other financial liabilities			
Accounts payable	-	3,554	3,554
Outstanding acceptances	-	947	947
Deposits on lease contract	-	-	-
Dividends payable	-	-	-
Others	-	1,694	1,694
Non-financial assets			
Investment properties	-	2,057	2,057

2013	Fair value		Total
	Level 1	Level 2	
(In Millions of Pesos)			
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	16,550	16,550
Trading securities - debt securities	2,280	346	2,626
Available-for-sale financial assets			
- Debt securities	69,809	11,677	81,486
- Equity securities	136	-	136
	72,225	28,573	100,798
Financial liabilities			
Derivative financial liabilities	-	16,360	16,360
Non-recurring measurements			
Assets held for sale, net	-	2,094	2,094

2013	Fair value		Total
	Level 1	Level 2	
Fair values disclosed			
Financial assets			
Cash and other cash items	-	24,888	24,888
Due from BSP	-	195,076	195,076
Due from other banks	-	8,789	8,789
Interbank loans receivable and SPAR	-	10,037	10,037
Held-to-maturity securities	93,586	-	93,586
Loans and advances, net	-	488,832	488,832
Other financial assets			
Accounts receivable, net	-	623	623
Other accrued interest and fees receivable	-	573	573
Sales contracts receivable, net	-	27	27
Rental deposits	-	280	280
Others, net	-	393	393
Financial liabilities			
Deposit liabilities	-	710,719	710,719
Bills payable	-	19,022	19,022
Due to BSP and other banks	-	2,052	2,052
Manager's checks and demand drafts outstanding	-	6,026	6,026
Other financial liabilities			
Accounts payable	-	2,370	2,370
Outstanding acceptances	-	1,677	1,677
Deposits on lease contract	-	-	-
Dividends payable	-	3,201	3,201
Others	-	1,498	1,498
Non-financial assets			
Investment properties	-	3,289	3,289

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, 2014 and 2013. There were no transfers between Level 1 and Level 2 during the years ended December 31, 2014 and 2013.

3.6 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.

3.7 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.

NOTES TO FINANCIAL STATEMENTS (continued)

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 unrealized fair value losses on available-for-sale securities. Tier 2 capital includes net unrealized fair value gains on available-for-sale investments and 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 under the Basel III and Basel II framework for the years ended December 31, 2014 and 2013, respectively.

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Tier 1 capital	139,604	93,616	139,105	95,634
Tier 2 capital	7,579	6,257	6,199	5,041
Gross qualifying capital	147,183	99,873	145,304	100,675
Less: Regulatory adjustments/required deductions	18,664	3,218	50,102	32,170
Total qualifying capital	128,519	96,655	95,202	68,505
Risk weighted assets	865,708	705,556	701,290	563,773
CAR (%)	14.85	13.70	13.58	12.15

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

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

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

Note 4 - 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 13)

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, 2014 would be an estimated P524 million (2013 - P428 million) higher or lower.

(ii) Fair value of derivatives and other financial instruments (Notes 3.4 and 9)

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 28)

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 28 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, 2014 and 2013 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 28.

(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 2014, the BPI Group has recognized an impairment loss on its foreclosed assets amounting to P65 million (2013 - P599 million) as a result of reduction in fair market values.

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 11)

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

(ii) Classification of held-to-maturity securities (Note 12)

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.

NOTES TO FINANCIAL STATEMENTS (continued)

(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 17)

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 5 - Assets and Liabilities Attributable to Insurance Operations

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

	2014	2013
	(In Millions of Pesos)	
Assets		
Cash and cash equivalents (Note 7)	215	117
Insurance balances receivable, net	4,810	3,803
Investment securities		
Available-for-sale	5,390	4,477
Held-to-maturity	3,765	3,827
Land, building and equipment	144	131
Accounts receivable and other assets, net	2,121	2,231
	16,445	14,586
Liabilities		
Reserves and other balances	12,658	12,273
Accounts payable, accrued expenses and other payables	903	788
	13,561	13,061

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

	2014	2013	2012
	(In Millions of Pesos)		
Premiums earned and related income	2,868	3,020	2,441
Investment and other income	423	457	426
	3,291	3,477	2,867
Benefits, claims and maturities	1,363	1,133	972
Increase (decrease) in actuarial reserve liabilities	(162)	(80)	271
Management and general expenses	515	452	433
Commissions	554	518	478
Other expenses	14	5	19
	2,284	2,028	2,173
Income before income tax and minority interest	1,007	1,449	694

Note 6 - Business Segments

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

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

The BPI Group's main operating business segments follow:

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

- **Corporate Banking** - this segment consists of the entire lending, leasing, trade and cash management services provided by the BPI Group to corporate and institutional customers. These customers include both high-end corporations as well as various middle market clients.
- **Investment Banking** - this segment includes the various business groups operating in the investment markets and dealing in activities other than lending and deposit taking. These services cover corporate finance, securities distribution, asset management, trust and fiduciary services as well as proprietary trading and investment activities.

The performance of the Parent Bank is assessed as a single unit using financial information presented in the separate or Parent only financial statements. Likewise, the chief executive officer assesses the performance of its insurance business as a separate segment from its banking and allied financial undertakings. Information on the assets, liabilities and results of operations of the insurance business is fully disclosed in Note 5.

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. The revenue from external parties reported to management is measured in a manner consistent with that in profit or loss until 2013. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the BPI Group's cost of capital. The funds transfer pricing (FTP) prior to 2014 was computed on a gross basis. In 2014, the manner of reporting has changed, in which interest income and interest expense are no longer presented separately, considering that the calculation of FTP shifted from gross to net. In addition, majority of the segment's revenues are from interest and the chief executive officer relies primarily on net interest income to assess the performance of the segments and to make decisions concerning the segments.

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

The BPI Group's management reporting is based on a measure of operating profit comprising net income, loan impairment charges, fee and commission income, other income and non-interest income.

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, 2014, 2013 and 2012 are as follows:

	2014			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(In Millions of Pesos)			
Net interest income	21,984	7,242	5,956	35,182
Impairment charge	2,047	755	-	2,802
Net interest income after impairment charge	19,937	6,487	5,956	32,380
Fees and commission income	5,294	649	1,677	7,620
Other income	6,632	1,958	4,673	13,263
Gross receipts tax	(775)	(44)	(502)	(1,321)
Other income, net	11,151	2,563	5,848	19,562
Compensation and fringe benefits	8,122	1,041	904	10,067
Occupancy and equipment - related expenses	4,392	1,174	132	5,698
Other operating expenses	7,031	4,147	1,402	12,580
Total operating expenses	19,545	6,362	2,438	28,345
Operating profit	11,543	2,688	9,366	23,597
Share in net income of associates				257
Provision for income tax				4,958
Total assets	463,989	598,184	361,061	1,423,234
Total liabilities	1,205,684	10,168	70,255	1,286,107

NOTES TO FINANCIAL STATEMENTS (continued)

	2013			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(In Millions of Pesos)			
Interest income	29,563	7,754	3,912	41,229
Interest expense	9,561	377	139	10,077
Net interest income	20,002	7,377	3,773	31,152
Impairment charge	2,316	1,304	-	3,620
Net interest income after impairment charge	17,686	6,073	3,773	27,532
Fees and commission income	4,775	524	782	6,081
Other income	5,812	2,028	8,483	16,323
Gross receipts tax	(685)	(46)	(785)	(1,516)
Other income, net	9,902	2,506	8,480	20,888
Compensation and fringe benefits	7,498	923	674	9,095
Occupancy and equipment - related expenses	4,302	1,198	144	5,644
Other operating expenses	5,695	3,459	1,150	10,304
Total operating expenses	17,495	5,580	1,968	25,043
Operating profit	10,093	2,999	10,285	23,377
Share in net income of associates				590
Provision for income tax				4,153
Total assets	384,670	460,029	329,460	1,174,159
Total liabilities	1,014,263	14,918	42,299	1,071,480

	2012			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(In Millions of Pesos)			
Interest income	27,138	8,226	4,926	40,290
Interest expense	11,726	475	107	12,308
Net interest income	15,412	7,751	4,819	27,982
Impairment charge	2,103	817	-	2,920
Net interest income after impairment charge	13,309	6,934	4,819	25,062
Fees and commission income	4,192	523	641	5,356
Other income	4,546	1,686	8,816	15,048
Gross receipts tax	(547)	(55)	(697)	(1,299)
Other income, net	8,191	2,154	8,760	19,105
Compensation and fringe benefits	7,189	921	559	8,669
Occupancy and equipment - related expenses	4,204	1,070	124	5,398
Other operating expenses	5,230	3,074	1,015	9,319
Total operating expenses	16,623	5,065	1,698	23,386
Operating profit	4,877	4,023	11,881	20,781
Share in net income of associates				138
Provision for income tax				3,158
Total assets	336,125	366,674	264,426	967,225
Total liabilities	829,128	16,626	29,794	875,548

Reconciliation of segment results to consolidated results of operations:

	2014		Total per consolidated financial statements
	Total per management reporting	Consolidation adjustments/ Others	
	(In Millions of Pesos)		
Net interest income	35,182	(374)	34,808
Impairment charge	2,802	5	2,807
Net interest income after impairment charge	32,380	(379)	32,001
Fees and commission income	7,620	(250)	7,370
Other income	13,263	1,781	15,044
Gross receipts tax	(1,321)	(114)	(1,435)
Other income, net	19,562	1,417	20,979
Compensation and fringe benefits	10,067	1,783	11,850
Occupancy and equipment - related expenses	5,698	3,319	9,017
Other operating expenses	12,580	(3,487)	9,093
Total operating expenses	28,345	1,615	29,960
Operating profit	23,597	(577)	23,020
Share in net income of associates (included in Other income)	257	-	257
Provision for income tax	4,958	-	4,958
Total assets	1,423,234	26,963	1,450,197
Total liabilities	1,286,107	17,411	1,303,518

	2013		Total per consolidated financial statements
	Total per management reporting	Consolidation adjustments/ Others	
	(In Millions of Pesos)		
Interest income	41,229	(427)	40,802
Interest expense	10,077	401	10,478
Net interest income	31,152	(828)	30,324
Impairment charge	3,620	(972)	2,648
Net interest income after impairment charge	27,532	144	27,676
Fees and commission income	6,081	(196)	5,885
Other income	16,323	1,521	17,844
Gross receipts tax	(1,516)	(39)	(1,555)
Other income, net	20,888	1,286	22,174
Compensation and fringe benefits	9,095	1,546	10,641
Occupancy and equipment - related expenses	5,644	2,396	8,040
Other operating expenses	10,304	(2,282)	8,022
Total operating expenses	25,043	1,660	26,703
Operating profit	23,377	(230)	23,147
Share in net income of associates (included in Other income)	590	-	590
Provision for income tax	4,153	-	4,153
Total assets	1,174,159	21,205	1,195,364
Total liabilities	1,071,480	18,077	1,089,557

NOTES TO FINANCIAL STATEMENTS (continued)

	2012		Total per consolidated financial statements
	Total per management reporting	Consolidation adjustments/ Others	
	(In Millions of Pesos)		
Interest income	40,290	(181)	40,109
Interest expense	12,308	347	12,655
Net interest income	27,982	(528)	27,454
Impairment charge	2,920	3	2,923
Net interest income after impairment charge	25,062	(531)	24,531
Fees and commission income	5,356	(245)	5,111
Other income	15,048	1,114	16,162
Gross receipts tax	(1,299)	(43)	(1,342)
Other income, net	19,105	826	19,931
Compensation and fringe benefits	8,669	1,801	10,470
Occupancy and equipment - related expenses	5,398	1,795	7,193
Other operating expenses	9,319	(2,180)	7,139
Total operating expenses	23,386	1,416	24,802
Operating profit	20,781	(1,121)	19,660
Share in net income of associates (included in Other income)	138	-	138
Provision for income tax	3,158	-	3,158
Total assets	967,225	18,016	985,241
Total liabilities	875,548	11,571	887,119

"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 7 - Cash and Cash Equivalents

This account at December 31 consists of:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Cash and other cash items	38,427	25,696	37,292	24,888
Due from BSP	211,946	244,483	170,648	195,076
Due from other banks	22,227	17,070	15,429	8,789
Interbank loans receivable and securities purchased under agreements to resell (Note 8)	743	12,406	241	5,046
Cash and cash equivalents attributable to insurance operations (Note 5)	215	117	-	-
	273,558	299,772	223,610	233,799

Note 8 - Interbank Loans Receivable and Securities Purchased under Agreements to Resell (SPAR)

The account at December 31 consists of transactions with:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
BSP	500	11,505	-	4,150
Other banks	5,266	5,879	5,231	5,879
	5,766	17,384	5,231	10,029
Accrued interest receivable	16	13	15	8
	5,782	17,397	5,246	10,037

Interbank loans receivable and SPAR maturing within 90 days from the date of acquisition are classified as cash equivalents in the statement of cash flows (Note 7).

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Current	2,905	14,531	2,369	7,171
Non-current	2,877	2,866	2,877	2,866
	5,782	17,397	5,246	10,037

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 of the BPI Group for the years ended December 31 follows:

	2014	2013
Peso-denominated	3.16 - 3.54	3.50 - 3.62
US dollar-denominated	0.07 - 0.13	0.13 - 0.16

Note 9 - 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.

NOTES TO FINANCIAL STATEMENTS (continued)

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 as at December 31 are set out below:

Consolidated and Parent

	Contract/ Notional Amount		Fair Values			
	2014	2013	Assets		Liabilities	
			2014	2013	2014	2013
	(In Millions of Pesos)					
Free-standing derivatives						
Foreign exchange derivatives						
Currency swaps	122,364	70,312	21,828	12,294	(21,359)	(12,252)
Currency forwards	101,657	60,661	1,487	700	(652)	(621)
Interest rate swaps	87,499	46,862	12,544	3,471	(12,791)	(3,478)
Credit default swaps	1,342	888	28	13	(44)	(9)
Embedded credit derivatives	5,009	5,327	94	72	-	-
Total derivatives assets (liabilities) held for trading	317,871	184,050	35,981	16,550	(34,846)	(16,360)

Note 10 - Trading Securities

This account at December 31 consists of:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Debt securities				
Government securities	14,537	3,900	6,085	2,258
Commercial papers of private companies	658	429	492	367
	15,195	4,329	6,577	2,625
Accrued interest receivable	52	5	43	1
	15,247	4,334	6,620	2,626
Equity securities - listed	615	263	-	-
	15,862	4,597	6,620	2,626

All trading securities are classified as current.

Note 11 - Available-for-Sale Securities

This account at December 31 consists of:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Debt securities				
Government securities	28,046	65,808	23,650	62,636
Others	18,806	19,115	17,422	17,944
	46,852	84,923	41,072	80,580
Accrued interest receivable	632	962	532	906
	47,484	85,885	41,604	81,486
Equity securities				
Listed	2,474	643	355	350
Unlisted	1,663	1,614	113	113
	4,137	2,257	468	463
	51,621	88,142	42,072	81,949
Allowance for impairment	(312)	(586)	(206)	(213)
	51,309	87,556	41,866	81,736

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Current	5,295	5,038	2,992	3,352
Non-current	46,326	83,104	39,080	78,597
	51,621	88,142	42,072	81,949

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

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
At January 1	586	586	213	213
Reversal of impairment losses	(274)	-	(7)	-
At December 31	312	586	206	213

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

	2014	2013
Peso-denominated	2.84 - 3.18	3.30 - 4.60
Foreign currency-denominated	2.39 - 2.71	1.96 - 2.46

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

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
At January 1	87,556	106,403	81,736	92,845
Additions	72,240	264,840	58,135	241,745
Disposals	(107,387)	(280,663)	(96,923)	(249,990)
Amortization of premium, net	(2,365)	(507)	(2,252)	(505)
Fair value adjustments	1,831	(3,347)	1,525	(3,129)
Exchange differences	38	1,214	26	1,129
Net change in allowance for impairment	(274)	-	(7)	-
Net change in accrued interest receivable	(330)	(384)	(374)	(359)
At December 31	51,309	87,556	41,866	81,736

NOTES TO FINANCIAL STATEMENTS (continued)

On January 9, 2014, the BPI Group reclassified certain available-for-sale securities aggregating P63.4 billion to held-to-maturity category. The reclassification was triggered by management's change in intention over the securities in the light of volatile market prices due to rising interest rate environment. Management believes that despite the market uncertainties, the BPI Group has the capability to hold those reclassified securities until maturity dates.

The aggregate fair value loss of those securities at reclassification dates that are still recognized in Accumulated other comprehensive income (under Capital funds), and which will be amortized over the remaining lives of the instruments using the effective interest rate method amounts to P4,534 million. Unamortized fair value loss as at December 31, 2014 amounts to P4,201 million. Fair value gain that would have been recognized in other comprehensive income if the available-for-sale securities had not been reclassified amounts to P3,678 million for the year ended December 31, 2014. There are no gains or losses recognized in profit or loss or other comprehensive income.

On October 22, 2008, the BPI Group reclassified certain available-for-sale securities aggregating P19.1 billion to held-to-maturity category. Likewise, on November 12, 2008, an additional portfolio of US dollar-denominated available-for-sale securities totaling US\$171.6 million (or peso equivalent of P9.2 billion) was further reclassified from available-for-sale to held-to-maturity. The reclassification was triggered by management's change in intention over the securities in the light of volatile market prices due to global economic downturn. Management believes that despite the market uncertainties, the BPI Group has the capability to hold those reclassified securities until maturity dates.

The aggregate fair value loss of those securities at reclassification dates still recognized in Accumulated other comprehensive income (under Capital funds), and which will be amortized over the remaining lives of the instruments using the effective interest rate method amounts to P1,757 million. Unamortized fair value loss as at December 31, 2014 amounts to P269 million (2013 - P371 million). Fair value loss that would have been recognized in other comprehensive income if the available-for-sale securities had not been reclassified amounts to P123 million for the year ended December 31, 2014 (2013 - P277 million loss). There are no gains or losses recognized in profit or loss or other comprehensive income.

Note 12 - Held-to-Maturity Securities

This account at December 31 consists of:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Government securities	195,779	91,277	180,547	82,129
Commercial papers of private companies	10,301	2,898	9,428	2,034
	206,080	94,175	189,975	84,163
Accrued interest receivable	3,329	1,997	3,026	1,737
	209,409	96,172	193,001	85,900

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Current	8,625	9,851	7,571	8,350
Non-current	200,784	86,321	185,430	77,550
	209,409	96,172	193,001	85,900

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

	2014	2013
Peso-denominated	4.27 - 4.98	6.82 - 7.89
Foreign currency-denominated	4.25 - 4.71	4.55 - 4.75

The movement in held-to-maturity securities is summarized as follows:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
At January 1	96,172	76,243	85,900	67,822
Additions	127,125	48,508	118,981	42,493
Maturities	(13,580)	(29,906)	(11,843)	(25,815)
Amortization of premium, net	(1,698)	(1,374)	(1,369)	(1,067)
Exchange differences	58	2,478	43	2,269
Net change in accrued interest receivable	1,332	223	1,289	198
At December 31	209,409	96,172	193,001	85,900

Note 13 - Loans and Advances

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

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Corporate entities				
Large corporate customers	553,493	417,537	532,181	399,235
Small and medium enterprise	94,185	86,740	58,875	54,471
Retail customers				
Credit cards	31,010	27,222	30,931	27,054
Mortgages	123,965	106,413	182	180
Others	10,719	5,759	7,390	2,291
	813,372	643,671	629,559	483,231
Accrued interest receivable	2,753	2,175	1,973	1,449
Unearned discount/income	(2,249)	(3,026)	(913)	(662)
	813,876	642,820	630,619	484,018
Allowance for impairment	(13,706)	(12,617)	(9,178)	(8,863)
	800,170	630,203	621,441	475,155

The Parent balances above include amounts due from related parties (Note 30).

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Current	649,056	390,421	619,169	345,925
Non-current	164,820	252,399	11,450	138,093
	813,876	642,820	630,619	484,018

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

	Consolidated	
	2014	2013
	(In Millions of Pesos)	
Total future minimum lease collections	6,507	6,546
Unearned finance income	(817)	(821)
Present value of future minimum lease collections	5,690	5,725
Allowance for impairment	(132)	(121)
	5,558	5,604

NOTES TO FINANCIAL STATEMENTS (continued)

Details of future minimum lease collections follow:

	Consolidated	
	2014	2013
	(In Millions of Pesos)	
Not later than one year	3,578	3,047
Later than one year but not later than five years	2,929	3,499
	6,507	6,546
Unearned finance income	(817)	(821)
	5,690	5,725

The BPI Group, through BPI Leasing 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, 2014 and 2013.

There is no contingent rent recognized as income during the years ended December 31, 2014 and 2013.

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	
	2014	2013	2014	2013
Consumer	9.38	10.04	5.34	5.87
Manufacturing	21.00	21.65	26.45	27.97
Real estate, renting and other related activities	22.45	26.97	14.06	18.13
Agriculture and forestry	2.15	1.62	2.68	2.03
Wholesale and retail trade	12.88	12.62	14.99	15.03
Financial institutions	11.95	7.89	15.09	8.87
Others	20.19	19.21	21.39	22.10
	100.00	100.00	100.00	100.00

2) As to collateral

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	187,605	179,228	97,983	80,650
Chattel mortgage	40,146	35,968	141	2,673
Others	245,778	159,988	210,919	146,969
	473,529	375,184	309,043	230,292
Unsecured loans	337,594	265,461	319,603	252,277
	811,123	640,645	628,646	482,569

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

Loans and advances aggregating P479 million (2013 - P1,310 million) and P461 million (2013 - P1,232 million) are used as security for bills payable (Note 20) of the BPI Group and Parent Bank, respectively.

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

	2014	2013
Commercial loans		
Peso-denominated loans	3.99 - 4.05	4.50 - 4.73
Foreign currency-denominated loans	2.33 - 2.59	2.43 - 2.66
Real estate mortgages	7.44 - 7.65	7.76 - 8.13
Auto loans	10.04 - 10.18	9.68 - 10.12

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	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Non-performing accounts (NPL 30)	12,540	11,452	7,205	6,788
Specific allowance for credit losses	7,477	8,268	4,560	5,399
Net NPL 30	5,063	3,184	2,645	1,389

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

Consolidated

	2014					
	Corporate entities		Retail customers			
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	Total
	(In Millions of Pesos)					
At January 1	5,059	2,154	1,478	2,390	1,536	12,617
Provision for impairment losses	727	306	153	1,079	725	2,990
Write-off/disposal	(152)	(127)	-	(1,179)	(177)	(1,635)
Unwind of discount	(76)	(47)	-	-	-	(123)
Transfers	23	30	(92)	2	(106)	(143)
At December 31	5,581	2,316	1,539	2,292	1,978	13,706

	2013					
	Corporate entities		Retail customers			
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	Total
	(In Millions of Pesos)					
At January 1	3,054	2,780	1,510	2,305	1,448	11,097
Provision for impairment losses	212	138	74	1,200	262	1,886
Write-off/disposal	(432)	(46)	(4)	(1,115)	(72)	(1,669)
Unwind of discount	(87)	(60)	-	-	-	(147)
Transfers	2,312	(658)	(102)	-	(102)	1,450
At December 31	5,059	2,154	1,478	2,390	1,536	12,617

NOTES TO FINANCIAL STATEMENTS (continued)

Parent

	2014					
	Corporate entities		Retail customers			Total
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	
	(In Millions of Pesos)					
At January 1	4,307	1,923	65	2,390	178	8,863
Provision for impairment losses	566	179	(2)	1,067	104	1,914
Write-off/disposal	(152)	(99)	-	(1,177)	(74)	(1,502)
Unwind of discount	(76)	(47)	-	-	-	(123)
Transfers	53	7	(34)	(1)	1	26
At December 31	4,698	1,963	29	2,279	209	9,178
	2013					
	Corporate entities		Retail customers			Total
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	
	(In Millions of Pesos)					
At January 1	2,950	2,143	38	2,305	95	7,531
Provision for impairment losses	104	109	15	1,200	82	1,510
Write-off/disposal	(432)	(38)	(4)	(1,115)	(3)	(1,592)
Unwind of discount	(87)	(60)	-	-	-	(147)
Transfers	1,772	(231)	16	-	4	1,561
At December 31	4,307	1,923	65	2,390	178	8,863

Transfers pertain to reclassification of allowance for impairment between accounts.

Note 14 - Bank Premises, Furniture, Fixtures and Equipment

This account at December 31 consists of:

Consolidated

	2014				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2014	3,074	5,395	12,857	4,786	26,112
Additions	-	946	1,494	1,797	4,237
Disposals	(1)	-	(512)	(1,671)	(2,184)
Amortization	-	(175)	-	-	(175)
Transfers	1	-	-	-	1
Others	-	(4)	-	-	(4)
December 31, 2014	3,074	6,162	13,839	4,912	27,987
Accumulated depreciation					
January 1, 2014	-	2,253	10,027	1,628	13,908
Depreciation	-	236	1,378	1,109	2,723
Disposals/transfers	-	32	(403)	(1,033)	(1,404)
December 31, 2014	-	2,521	11,002	1,704	15,227
Net book value, December 31, 2014	3,074	3,641	2,837	3,208	12,760
	2013				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2013	3,146	5,844	11,890	4,852	25,732
Additions	-	389	1,957	1,883	4,229
Disposals	(76)	(611)	(987)	(1,949)	(3,623)
Amortization	-	(151)	-	-	(151)
Transfers	4	(76)	(3)	-	(75)
December 31, 2013	3,074	5,395	12,857	4,786	26,112
Accumulated depreciation					
January 1, 2013	-	2,352	9,322	1,637	13,311
Depreciation	-	215	1,317	1,095	2,627
Disposals/transfers	-	(314)	(612)	(1,105)	(2,031)
December 31, 2013	-	2,253	10,027	1,627	13,907
Net book value, December 31, 2013	3,074	3,142	2,830	3,159	12,205

NOTES TO FINANCIAL STATEMENTS (continued)

Parent

	2014			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2014	2,664	4,670	11,912	19,246
Additions	-	848	1,331	2,179
Disposals	(1)	-	(432)	(433)
Amortization	-	(129)	-	(129)
Transfers	1	-	-	1
December 31, 2014	2,664	5,389	12,811	20,864
Accumulated depreciation				
January 1, 2014	-	1,976	9,241	11,217
Depreciation	-	206	1,289	1,495
Disposals/transfers	-	32	(347)	(315)
December 31, 2014	-	2,214	10,183	12,397
Net book value, December 31, 2014	2,664	3,175	2,628	8,467
	2013			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2013	2,692	5,055	10,985	18,732
Additions	-	342	1,850	2,192
Disposals	(28)	(528)	(923)	(1,479)
Amortization	-	(114)	-	(114)
Transfers	-	(85)	-	(85)
December 31, 2013	2,664	4,670	11,912	19,246
Accumulated depreciation				
January 1, 2013	-	2,057	8,574	10,631
Depreciation	-	185	1,237	1,422
Disposals/transfers	-	(266)	(571)	(837)
December 31, 2013	-	1,976	9,240	11,216
Net book value, December 31, 2013	2,664	2,694	2,672	8,030

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

Note 15 - Investment Properties

This account at December 31 consists of:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Land	97	963	97	963
Buildings	2,013	1,856	2,013	1,856
	2,110	2,819	2,110	2,819
Accumulated depreciation	(1,300)	(1,220)	(1,300)	(1,220)
Allowance for impairment	(2)	(2)	(2)	(2)
	808	1,597	808	1,597

The movement in investment properties is summarized as follows:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
At January 1	1,597	2,582	1,597	2,575
Additions	157	-	157	-
Disposals	(866)	(994)	(866)	(987)
Transfers	-	85	-	85
Depreciation	(80)	(76)	(80)	(76)
At December 31	808	1,597	808	1,597

Investment properties have aggregate fair value of P2,057 million as at December 31, 2014 (2013 - P3,289 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 BPI Group's Credit Policy 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 P298 million for the year ended December 31, 2014 (2013 - P255 million; 2012 - P260 million). Direct operating expenses (including repairs and maintenance) arising from these investment properties amount to P23 million for the year ended December 31, 2014 (2013 - P21 million; 2012 - P193 million).

Note 16 - Investments in Subsidiaries and Associates

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

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Carrying value (net of impairment)				
Investments at equity method	4,784	4,176	-	-
Investments at cost method	-	-	6,726	6,793
	4,784	4,176	6,726	6,793

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
		2014	2013	2014	2013	
BPI - Philamlife Assurance Corporation	Philippines	47.67	47.67	371	371	Equity
Automated Fare Collection Services, Inc.	Philippines	20.00	-	300	-	Equity
National Reinsurance Corporation*	Philippines	13.69	15.38	204	204	Equity
Beacon Properties	Philippines	20.00	20.00	100	100	Equity
Victoria 1552 Investments, LP	Delaware, USA	35.00	35.00	7	7	Equity
Citytrust Realty Corporation	Philippines	40.00	40.00	2	2	Equity
				984	684	
Allowance for impairment				(7)	(7)	
				977	677	

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

NOTES TO FINANCIAL STATEMENTS (continued)

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:

	2014	2013
	(In Millions of Pesos)	
Acquisition cost		
At January 1	677	677
Addition	300	-
Allowance for impairment	-	-
At December 31	977	677
Accumulated equity in net income		
At January 1	1,968	1,385
Share in net income for the year	257	590
Dividends received	(201)	(7)
At December 31	2,024	1,968
Accumulated share in other comprehensive income		
At January 1	1,530	1,618
Share in other comprehensive income for the year	253	(87)
At December 31	1,783	1,531
	4,784	4,176

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

	2014	2013
	(In Millions of Pesos)	
Total assets	79,092	66,239
Total liabilities	63,083	52,042
Total revenues	18,667	17,898
Total net income	480	1,414

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	
	2014	2013	2014	2013	2014	2013
	(In Millions of Pesos)					
Subsidiaries						
BPI Europe Plc.	1,910	1,910	-	-	1,910	1,910
Ayala Plans, Inc.	863	863	-	-	863	863
BPI Capital Corporation	623	623	-	-	623	623
BPI Direct Savings Bank, Inc.	392	392	-	-	392	392
BPI Century Tokyo Lease and Finance Corporation (formerly BPI Leasing Corporation)	329	644	-	-	329	644
FGU Insurance Corporation	303	303	-	-	303	303
BPI Globe BankKO, Inc.	607	359	-	-	607	359
BPI Foreign Exchange 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 (formerly BPI Express Remittance Europe, S.p.A)	54	54	-	-	54	54
BPI Card Finance Corp.	50	50	-	-	50	50
FEB Stock Brokers, Inc.	25	25	-	-	25	25
BPI Computer Systems Corp.	23	23	-	-	23	23
BPI Express Remittance Spain S.A	25	25	-	-	25	25
Others	322	322	(104)	(104)	218	218
Associates	677	677	-	-	677	677
	6,830	6,897	(104)	(104)	6,726	6,793

In 2014, the Parent Bank made additional capital infusion to BPI Globe BankKO, Inc. amounting to P248 million.

Note 17 - Deferred Income Taxes

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

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Deferred income tax assets				
Allowance for impairment	5,919	5,662	3,901	3,813
Net operating loss carry over (NOLCO)	117	10	-	-
Minimum corporate income tax (MCIT)	1	2	-	-
Pension liability	298	370	268	283
Others	1	1,007	-	1,035
Total deferred income tax assets	6,336	7,051	4,169	5,131
Deferred income tax liabilities				
Revaluation gain on properties acquired from a business combination	(543)	(767)	(543)	(731)
Fair value gain on available-for-sale securities	(42)	-	-	-
Others	(33)	(108)	(31)	(104)
Total deferred income tax liabilities	(618)	(875)	(574)	(835)
	5,718	6,176	3,595	4,296

NOTES TO FINANCIAL STATEMENTS (continued)

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Deferred income tax assets				
Amount to be recovered within 12 months	444	612	431	559
Amount to be recovered after 12 months	5,892	6,439	3,738	4,572
	6,336	7,051	4,169	5,131
Deferred income tax liabilities				
Amount to be settled within 12 months	449	175	449	175
Amount to be settled after 12 months	169	700	125	660
	618	875	574	835

The movement in the deferred income tax account is summarized as follows:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
At January 1	6,176	5,087	4,296	3,525
Amounts credited to (charged against) statement of income	416	(6)	138	(245)
Amounts (charged against) credited to other comprehensive income	(874)	1,095	(839)	1,016
At December 31	5,718	6,176	3,595	4,296

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

	Consolidated		Parent		2012
	2014	2013	2014	2013	
	(In Millions of Pesos)				
Allowance for impairment	(298)	(94)	(436)	(163)	(210)
NOLCO	(107)	(3)	(3)	-	-
Pension	76	82	22	75	19
Others	(87)	21	(1)	(50)	(22)
	(416)	6	(418)	(138)	(213)

The outstanding NOLCO at December 31 consists of:

Year of Incurrence	Year of Expiration	Consolidated		Parent	
		2014	2013	2014	2013
		(In Millions of Pesos)			
2014	2017	361	-	-	-
2013	2016	20	20	-	-
2012	2015	10	10	-	-
2011	2014	3	3	-	-
2010	2013	-	11	-	-
		394	44	-	-
Used portion/ expired during the year		(3)	(11)	-	-
		391	33	-	-
Tax rate		30%	30%	30%	30%
Deferred income tax asset on NOLCO		117	10	-	-

The details of MCIT at December 31 are as follows:

Year of Incurrence	Year of Expiration	Consolidated		Parent	
		2014	2013	2014	2013
		(In Millions of Pesos)			
2014	2017	1	-	-	-
2013	2016	-	-	-	-
2012	2015	-	-	-	-
2011	2014	3	3	-	-
		4	3	-	-
Used portion during the year		(3)	(1)	-	-
		1	2	-	-

Note 18 - Other Resources

The account at December 31 consists of the following:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Intangible assets	2,334	2,744	2,282	2,689
Accounts receivable	2,574	2,356	1,974	1,902
Residual value of equipment for lease	1,974	1,994	-	-
Sundry debits	3,196	1,167	2,310	1,149
Accrued trust and other fees	1,213	1,153	1,109	1,004
Creditable withholding tax	482	1,334	210	1,076
Prepaid expenses	732	725	508	494
Rental deposits	366	335	304	280
Miscellaneous assets	2,158	999	1,291	420
	15,029	12,807	9,988	9,014
Allowance for impairment	(1,478)	(1,759)	(1,330)	(1,600)
	13,551	11,048	8,658	7,414

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	
	2014	2013	2014	2013
	(In Millions of Pesos)			
At January 1	1,759	1,662	1,600	1,523
(Reversal of) provision for impairment losses	(246)	159	(255)	88
Write-off	(35)	(62)	(15)	(11)
At December 31	1,478	1,759	1,330	1,600

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Current	10,366	8,405	8,481	7,513
Non-current	4,663	4,402	1,507	1,501
	15,029	12,807	9,988	9,014

Note 19 - Deposit Liabilities

This account at December 31 consists of:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Demand	199,690	179,681	191,954	171,731
Savings	616,448	505,538	525,129	430,185
Time	360,075	303,367	235,598	183,487
	1,176,213	988,586	952,681	785,403

The Parent balances above include amounts due to related parties (Note 30).

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Current	584,042	288,733	447,239	429,754
Non-current	592,171	699,853	505,442	355,649
	1,176,213	988,586	952,681	785,403

NOTES TO FINANCIAL STATEMENTS (continued)

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

	Consolidated			Parent		
	2014	2013	2012	2014	2013	2012
	(In Millions of Pesos)					
Demand	452	448	550	405	403	505
Savings	5,584	3,032	2,651	4,320	2,351	2,190
Time	4,798	6,050	8,447	2,010	2,433	4,234
	10,834	9,530	11,648	6,735	5,187	6,929

Under current and existing BSP regulations as at December 31, 2014 and 2013, the BPI Group should comply with a simplified minimum reserve requirement instead of the separate liquidity and statutory reserve requirements. 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 liquidity and statutory reserves as reported to BSP at December 31 comprise of:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Due from BSP	177,871	128,276	160,625	116,419

Note 20 - Bills Payable; Unsecured Subordinated Debt

The account at December 31 consists of:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Bangko Sentral ng Pilipinas	-	990	-	919
Local banks	6,916	7,395	225	313
Foreign banks	26,077	17,794	26,063	17,758
	32,993	26,179	26,288	18,990

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

	2014	2013
Bangko Sentral ng Pilipinas	3.32 - 3.72	3.87 - 4.10
Private firms and local banks - Peso-denominated	3.06 - 3.43	5.81 - 6.31
Foreign banks	0.90 - 1.05	1.04 - 1.31

	Consolidated			Parent		
	2014	2013	2012	2014	2013	2012
	(In Millions of Pesos)					
Interest expense	350	545	584	138	194	165

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Current	28,476	25,313	26,103	18,209
Non-current	4,517	866	185	781
	32,993	26,179	26,288	18,990

Bills payable include funds borrowed from Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and Social Security System (SSS) which were relented to customers of the BPI Group in accordance with the financing programs of LBP, DBP and SSS and credit balances of settlement bank accounts. The average payment term of these bills payable is 1.03 years (2013 - 1.35 years). Loans and advances of the BPI Group arising from these financing programs serve as security for the related bills payable (Note 13).

On August 20, 2013, the Board of Directors of the Parent Bank approved the exercise of its option to call or redeem the P5,000 million BPI Lower Tier 2 Notes on the optional redemption date, being December 13, 2013.

Note 21 - Deferred Credits and Other Liabilities

The account at December 31 consists of the following:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Bills purchased - contra	13,854	11,797	13,817	11,786
Accounts payable	4,787	3,550	3,554	2,370
Deposit on lease contract	1,974	2,076	-	-
Outstanding acceptances	947	1,677	947	1,677
Withholding tax payable	545	502	435	402
Vouchers payable	531	731	531	731
Other deferred credits	419	425	92	35
Due to the Treasurer of the Philippines	301	366	270	328
Dividends payable	-	3,201	-	3,201
Miscellaneous liabilities	7,910	6,905	5,823	5,808
	31,268	31,230	25,469	26,338

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 insurance and other employee-related payables.

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Current	19,955	20,354	17,868	18,449
Non-current	11,313	10,876	7,601	7,889
	31,268	31,230	25,469	26,338

Note 22 - Capital Funds

Details of authorized share capital of the Parent Bank follow:

	2014	2013	2012
	(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:

	2014	2013	2012
	(In Number of Shares)		
Issued common shares			
At January 1	3,558,720,023	3,556,356,173	3,556,356,173
Issuance of shares during the year	373,494,161	2,363,850	-
At December 31	3,932,214,184	3,558,720,023	3,556,356,173
Subscribed common shares	5,056,319	2,363,850	-

Share premium as at December 31, 2014 amounts to P29,341 million (2013 - P8,316 million).

As at December 31, 2014, 2013 and 2012, the Parent Bank has 11,858, 12,111 and 12,447 common shareholders, respectively. There are no preferred shares issued and outstanding at December 31, 2014, 2013 and 2012.

NOTES TO FINANCIAL STATEMENTS (continued)

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

	Consolidated			Parent		
	2014	2013	2012	2014	2013	2012
	(In Millions of Pesos)					
Fair value reserve on available-for-sale securities						
At January 1	(2,952)	1,030	1,748	(3,029)	642	1,192
Unrealized fair value (loss) gain before tax	(1,406)	(4,901)	(987)	(1,525)	(4,592)	(809)
Deferred income tax effect	503	919	269	482	921	259
At December 31	(3,855)	(2,952)	1,030	(4,072)	(3,029)	642
Share in other comprehensive income (loss) of insurance subsidiaries						
At January 1	36	289	137	-	-	-
Share in other comprehensive income (loss) for the year, before tax	157	(331)	169	-	-	-
Deferred income tax effect	(5)	78	(17)	-	-	-
At December 31	188	36	289	-	-	-
Share in other comprehensive income (loss) of associates						
At January 1	1,530	1,618	1,116	-	-	-
Share in other comprehensive income (loss) for the year	254	(88)	502	-	-	-
At December 31	1,784	1,530	1,618	-	-	-
Translation adjustment on foreign operations						
At January 1	(703)	(936)	(832)	-	-	-
Translation differences	(65)	233	(104)	-	-	-
At December 31	(768)	(703)	(936)	-	-	-
Actuarial (losses) gains on defined benefit plan, net						
At January 1	(1,072)	(581)	(2,333)	(781)	(365)	(1,755)
Actuarial (losses) gains for the year	713	(702)	2,504	503	(594)	1,986
Deferred income tax effect	(213)	211	(752)	(151)	178	(596)
At December 31	(572)	(1,072)	(581)	(429)	(781)	(365)
	(3,223)	(3,161)	1,420	(4,501)	(3,810)	277

On November 12, 2014, the Board of Directors of the Parent Bank approved to grant to qualified beneficiaries/participants up to 3,200,000 shares for Executive Stock Option Plan (ESOP) and 4,100,000 shares for Executive Stock Purchase Plan (ESPP).

On November 27, 2013, the Board of Directors of the Parent Bank approved to grant to qualified beneficiaries/ participants up to 3,500,000 shares for ESOP and up to 4,300,000 shares for ESPP.

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

The exercise price for ESOP is equal to the volume weighted average of BPI share price for the most recent previous 30-trading days from grant date. The weighted average fair value of options granted during 2014 determined using the Black-Scholes valuation model was P16.20 per option (2013 - P17.54).

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

	2014	2013
At January 1	3,250,000	-
Granted	3,175,000	3,250,000
Exercised	-	-
Cancelled	(75,000)	-
At December 31	6,350,000	3,250,000
Exercisable	1,058,333	-

The subscription price for ESPP is equivalent to 15% below the volume weighted average of BPI share price for the most recent previous 30-trading days from grant date. The subscription dates for ESPP were on November 12, 2014 and December 23, 2013.

The impact of ESOP is not considered material to the 2013 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		
	2014	2013	2012	2014	2013	2012
	(In Millions of Pesos)					
Surplus reserves						
At January 1	1,680	1,603	1,462	1,680	1,603	1,462
Transfer from surplus	397	76	141	397	76	141
Executive stock plan amortization	21	1	-	18	1	-
At December 31	2,098	1,680	1,603	2,095	1,680	1,603

Surplus reserves consist of:

	Consolidated			Parent		
	2014	2013	2012	2014	2013	2012
	(In Millions of Pesos)					
Reserve for trust business	2,043	1,645	1,569	2,043	1,645	1,569
Reserve for self-insurance	34	34	34	34	34	34
Executive stock option plan amortization	21	1	-	18	1	-
	2,098	1,680	1,603	2,095	1,680	1,603

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

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

Cash dividends declared by the Board of Directors of the Parent Bank during the years 2012 to 2014 follow:

Date declared	Date approved by the BSP	Amount of dividends	
		Per share	Total (In Millions of Pesos)
March 21, 2012	April 10, 2012	0.50	1,778
March 21, 2012	April 10, 2012	0.90	3,201
October 21, 2012	November 16, 2012	0.90	3,201
April 17, 2013	May 15, 2013	0.90	3,201
November 6, 2013	December 5, 2013	0.90	3,201
May 21, 2014	June 19, 2014	0.90	3,538

On November 19, 2014, cash dividend of P0.90 per share was declared by the Board of Directors, which was approved by the BSP on February 2, 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.

NOTES TO FINANCIAL STATEMENTS (continued)

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

	Consolidated			Parent		
	2014	2013	2012	2014	2013	2012
	(In Millions, Except Earnings Per Share Amounts)					
a) Net income attributable to equity holders of the Parent Bank	18,039	18,811	16,352	13,270	14,468	12,427
b) Weighted average number of common shares outstanding during the year	3,905	3,627	3,556	3,905	3,627	3,556
c) Basic EPS (a/b)	4.62	5.19	4.60	3.40	3.99	3.49

For 2013, the weighted average number of common shares outstanding during the year has been adjusted to take into consideration the rights issue approved by the Board of Directors on November 6, 2013. The Parent Bank offered for subscription a total of 370,370,370 common shares to eligible shareholders on a pre-emptive rights basis at P67.50 per share. The stock rights have been fully subscribed and listed on February 10, 2014. The proceeds from the rights offer amounting to P25 billion has increased the Parent Bank's capital base.

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 23 - Other Operating Income

Details of other operating income follow:

	Consolidated			Parent		
	2014	2013	2012	2014	2013	2012
	(In Millions of Pesos)					
Trust and asset management fees	3,433	3,723	2,913	2,793	3,026	2,453
Rental income	1,796	1,830	1,698	439	425	415
Credit card income	1,550	1,359	1,342	1,548	1,359	1,342
Gain on sale of assets	1,363	1,296	1,192	2,418	1,028	640
Dividend income	22	28	27	572	1,923	1,383
Others	2,504	1,278	706	2,201	795	538
	10,668	9,514	7,878	9,971	8,556	6,771

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

Rental income is earned by the BPI Group by leasing out its investment properties (Note 15) and other assets which consist mainly of fleet of vehicles.

Gain on sale of assets arises mainly from 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.

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

Note 24 - Leases

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

	Consolidated	Parent
	(In Millions of Pesos)	
2014	1,160	937
2013	1,071	869
2012	936	745

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

	2014	2013
	(In Millions of Pesos)	
No later than 1 year	59	67
Later than 1 year but no later than 5 years	90	85
	149	152

Note 25 - Operating Expenses

Details of compensation and fringe benefits expenses follow:

	Consolidated			Parent		
	2014	2013	2012	2014	2013	2012
	(In Millions of Pesos)					
Salaries and wages	9,516	8,788	8,328	7,610	6,831	6,565
Retirement expense (Note 28)	826	786	1,032	670	639	822
Other employee benefit expenses	1,508	1,067	1,110	1,288	822	875
	11,850	10,641	10,470	9,568	8,292	8,262

Details of other operating expenses follow:

	Consolidated			Parent		
	2014	2013	2012	2014	2013	2012
	(In Millions of Pesos)					
Insurance	2,513	1,908	1,685	1,642	1,269	1,127
Advertising	1,335	1,346	1,457	1,163	1,104	1,268
Travel and communication	722	696	662	601	594	556
Supervision and examination fees	497	500	398	436	441	351
Taxes and licenses	469	461	237	295	239	130
Litigation expenses	417	521	444	224	349	321
Amortization expense	316	337	334	312	333	332
Management and other professional fees	297	261	188	251	197	134
Office supplies	275	256	248	226	215	207
Shared expenses	-	-	-	22	18	33
Others	2,252	1,736	1,486	1,421	1,113	919
	9,093	8,022	7,139	6,593	5,872	5,378

Others include fees and incentives paid to agents, outsourcing fees and other business expense.

NOTES TO FINANCIAL STATEMENTS (continued)

Note 26 - Income Taxes

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

	Consolidated					
	2014		2013		2012	
	Amount	Rate (%)	Amount	Rate (%)	Amount	Rate (%)
	(In Millions of Pesos)					
Statutory income tax	6,906	30.00	6,944	30.00	5,898	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	(1,571)	(6.82)	(689)	(2.98)	(1,132)	(5.76)
Tax-exempt income	(2,062)	(8.96)	(2,938)	(12.69)	(2,850)	(14.50)
Others, net	1,685	7.31	836	3.61	1,242	6.32
Actual income tax	4,958	21.53	4,153	17.94	3,158	16.06

	Parent					
	2014		2013		2012	
	Amount	Rate (%)	Amount	Rate (%)	Amount	Rate (%)
	(In Millions of Pesos)					
Statutory income tax	5,067	30.00	5,207	30.00	4,397	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	(1,491)	(8.83)	(645)	(3.72)	(868)	(5.92)
Tax-exempt income	(1,035)	(6.13)	(1,993)	(11.48)	(1,982)	(13.52)
Others, net	1,080	6.39	320	1.85	684	4.66
Actual income tax	3,621	21.43	2,889	16.65	2,231	15.22

Note 27 - Basic Quantitative Indicators of Financial Performance

The key financial performance indicators follow (in %):

	Consolidated		Parent	
	2014	2013	2014	2013
Return on average equity	13.75	18.05	13.37	19.05
Return on average assets	1.44	1.87	1.33	1.87
Net interest margin	3.03	3.31	2.73	3.09

Note 28 - Retirement Plans

BPI and its subsidiaries, and a non-life insurance subsidiary have separate trustee, noncontributory retirement benefit plans covering all qualified officers and employees. The description of the plans follows:

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.

Plan assets are held in trusts, governed by local regulations and practice in the Philippines.

Non-life insurance subsidiary

BPI/MS has a separate trustee defined benefit plan. Under the plan, the normal retirement age is 60 years or the employee should have completed at least 10 years of service, whichever is earlier. The normal retirement benefit is equal to 150% of the final basic monthly salary for each year of service for below 10 years and 175% of the final basic monthly salary for each year of service for 10 years and above.

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.

Following are the amounts recognized based on recent actuarial valuations:

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

	Consolidated	
	2014	2013
	(In Millions of Pesos)	
Present value of defined benefit obligations	11,541	11,495
Fair value of plan assets	(11,133)	(10,261)
Pension liability recognized in the statement of condition	408	1,234

	Parent	
	2014	2013
	(In Millions of Pesos)	
Present value of defined benefit obligations	9,498	9,277
Fair value of plan assets	(9,165)	(8,332)
Pension liability recognized in the statement of condition	333	945

Pension liability is shown as part of "Miscellaneous liabilities" within Deferred credits and other liabilities (Note 21).

The movement in plan assets is summarized as follows:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
At January 1	10,261	10,406	8,332	8,385
Fund transfer due to transferred employees from a subsidiary	-	-	108	-
Asset return in net interest cost	544	687	448	553
Contributions	942	756	766	605
Benefit payments	(1,110)	(1,158)	(897)	(866)
Remeasurement - return on plan assets	496	(430)	408	(345)
At December 31	11,133	10,261	9,165	8,332

The carrying value of the plan assets as at December 31, 2014 is equivalent to the fair value of P11,133 million (2013 - P10,261 million).

The plan assets are comprised of the following:

	Consolidated				Parent			
	2014		2013		2014		2013	
	Amount	%	Amount	%	Amount	%	Amount	%
	(In Millions of Pesos Except for Rates)							
Debt securities	5,940	53	5,306	52	4,890	53	4,309	52
Equity securities	5,177	47	4,933	48	4,262	47	4,006	48
Others	16	-	22	-	13	-	17	-
	11,133	100	10,261	100	9,165	100	8,332	100

NOTES TO FINANCIAL STATEMENTS (continued)

Pension plan assets of the unified retirement plan include investment in BPI's common shares with carrying amount of P958 million (2013 - P1,232 million) and fair value of P2,365 million at December 31, 2014 (2013 - P2,750 million). Realized and unrealized gains coming from BPI's common shares amount to P489 million and P1,407 million in 2014, respectively (2013 - P474 million and P1,518 million). The actual return on plan assets of the BPI Group was P1,040 million in 2014 (2013 - P257 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	
	2014	2013	2014	2013
	(In Millions of Pesos)			
At January 1	11,495	10,909	9,277	8,702
Present value of defined benefit obligation for transferred employees from a subsidiary	-	-	95	-
Current service cost	759	764	621	618
Past service cost	-	(11)	-	-
Interest cost	611	720	497	574
Benefit payments	(1,110)	(1,158)	(897)	(866)
Remeasurement - changes in financial assumptions	(214)	271	(95)	249
At December 31	11,541	11,495	9,498	9,277

The BPI Group has no other transactions with the plan other than the contributions presented above for the years ended December 31, 2014 and 2013.

(b) Expense recognized in the statement of income

	Consolidated			Parent		
	2014	2013	2012	2014	2013	2012
	(In Millions of Pesos)					
Current service cost	759	764	816	621	618	657
Net interest cost	67	33	216	49	21	165
Past service cost	-	(11)	-	-	-	-
	826	786	1,032	670	639	822

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

	2014	2013
Discount rate	5.31%	5.31%
Future salary increases	5.00%	4.00%

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 average remaining service life of employees under the BPI unified retirement plan as at December 31, 2014 is 12 years (2013 - 20 years). The BPI Group contributes to the plan depending on the suggested funding contribution as calculated by an independent actuary. The expected contribution for the year ending December 31, 2015 for the BPI Group and Parent amounts to P968 million and P797 million, respectively.

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

Consolidated

(In Millions of Pesos)	2014	2013
Less than a year	868	865
Between 1 to 5 years	3,485	3,327
Between 5 to 10 years	4,829	4,370
Between 10 to 15 years	8,623	6,768
Between 15 to 20 years	12,962	10,463
Over 20 years	74,609	47,518

Parent

(In Millions of Pesos)	2014	2013
Less than a year	637	692
Between 1 to 5 years	2,709	2,516
Between 5 to 10 years	4,000	3,392
Between 10 to 15 years	7,558	5,905
Between 15 to 20 years	10,873	8,722
Over 20 years	54,499	36,697

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

Consolidated

2014

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 0.94%	Increase by 1.52%
Salary growth rate	1.0%	Increase by 3.92%	Decrease by 1.60%

2013

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 1.66%	Increase by 3.02%
Salary growth rate	1.0%	Increase by 7.13%	Decrease by 2.57%

Parent

2014

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 0.95%	Increase by 1.55%
Salary growth rate	1.0%	Increase by 3.99%	Decrease by 1.61%

2013

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 1.69%	Increase by 3.13%
Salary growth rate	1.0%	Increase by 7.39%	Decrease by 2.61%

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.

NOTES TO FINANCIAL STATEMENTS (continued)

Note 29 - Trust Assets

At December 31, 2014, the net asset value of trust and fund assets administered by the BPI Group amounts to P619 billion (2013 – P580 billion).

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

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Government securities	9,425	6,702	5,386	6,650

Note 30 - Related Party Transactions

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

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

The Parent Bank has a Related Party Transactions Committee that reviews and endorses all related party transactions, including those involving DOSRI, which shall require final Board approval. The Committee consists of four directors, two of whom are independent directors including the Chairman.

Significant related party transactions 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

	2014		Terms and conditions
	Transactions	Outstanding balances	
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	(163)	31	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 0.99% to 5.49% and with maturity periods ranging from 23 days to 10 years. Additional information on DOSRI loans are discussed below.
Associates	-	-	
AC	8,000	14,250	
Subsidiaries of AC	56,464	72,529	
Key management personnel	-	-	
Other related parties	863	863	
	65,164	87,673	
Deposits from:			
Subsidiaries	(910)	6,026	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.23% to 0.24% Savings - 0.83% to 0.86% Time - 1.70% to 1.76%
Associates	317	989	
Ayala Group	10,232	31,391	
Key management personnel	1,707	2,721	
	11,346	41,127	

	2013		Terms and conditions
	Transactions	Outstanding balances	
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	(202)	194	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 0.65% to 8.04% and with maturity periods ranging from 8 days to 12 years. Additional information on DOSRI loans are discussed below.
Associates	-	-	
AC	-	6,250	
Subsidiaries of AC	11,403	16,065	
Key management personnel	-	-	
	11,201	22,509	
Deposits from:			
Subsidiaries	2,885	6,936	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.28% to 0.36% Savings - 0.70% to 0.98% Time - 2.20% to 3.25%
Associates	613	672	
Ayala Group	(17,910)	21,159	
Key management personnel	704	1,014	
	(13,708)	29,781	

	2012		Terms and conditions
	Transactions	Outstanding balances	
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	(1,285)	396	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.19% to 6.50% and with maturity periods ranging from 2 days to 12 years. Additional information on DOSRI loans are discussed below.
Associates	-	-	
AC	1,750	6,250	
Subsidiaries of AC	4,460	4,662	
Key management personnel	-	-	
	4,925	11,308	
Deposits from:			
Subsidiaries	724	4,051	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.40% to 0.55% Savings - 0.95% to 1.06% Time - 3.45% to 3.71%
Associates	16	59	
Ayala Group	21,216	39,069	
Key management personnel	(32)	310	
	21,924	43,489	

NOTES TO FINANCIAL STATEMENTS (continued)

Parent

2014		
Transactions	Outstanding balances	Terms and conditions
(In Millions of Pesos)		
Loans and advances from:		
Subsidiaries	(163)	31
Associates	-	-
AC	8,000	14,250
Subsidiaries of AC	56,464	72,529
Key management personnel	-	-
Other related parties	863	863
	65,164	87,673
Deposits from:		
Subsidiaries	647	5,945
Associates	303	975
Ayala Group	9,286	30,445
Key management personnel	1,454	2,468
	11,690	39,833

These are loans and advances granted to related parties that are generally secured with interest rates ranging from 0.99% to 5.49% and with maturity periods ranging from 23 days to 10 years. Additional information on DOSRI loans are discussed below.

These are demand, savings and time deposits bearing the following average interest rates:
 Demand - 0.21% to 0.23%
 Savings - 0.77% to 0.80%
 Time - 0.78% to 0.94%

2013		
Transactions	Outstanding balances	Terms and conditions
(In Millions of Pesos)		
Loans and advances from:		
Subsidiaries	194	194
Associates	-	-
AC	-	6,250
Subsidiaries of AC	11,653	16,065
Key management personnel	-	-
	11,847	22,509
Deposits from:		
Subsidiaries	1,955	5,298
Associates	613	672
Ayala Group	(17,910)	21,159
Key management personnel	704	1,014
	(14,638)	28,143

These are loans and advances granted to related parties that are generally secured with interest rates ranging from 0.65% to 8.04% and with maturity periods ranging from 8 days to 12 years. Additional information on DOSRI loans are discussed below.

These are demand, savings and time deposits bearing the following average interest rates:
 Demand - 0.26% to 0.35%
 Savings - 0.64% to 0.92%
 Time - 1.42% to 2.61%

2012		
Transactions	Outstanding balances	Terms and conditions
(In Millions of Pesos)		
Loans and advances from:		
Subsidiaries	(1,681)	-
Associates	-	-
AC	(1,750)	6,250
Subsidiaries of AC	4,210	4,412
Key management personnel	-	-
	779	10,662
Deposits from:		
Subsidiaries	277	3,343
Associates	16	59
Ayala Group	21,216	39,069
Key management personnel	(342)	310
	21,167	42,781

These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.19% to 6.50% and with maturity periods ranging from 5 days to 12 years. Additional information on DOSRI loans are discussed below.

These are demand, savings and time deposits bearing the following average interest rates:
 Demand - 0.39% to 0.55%
 Savings - 0.92% to 1.05%
 Time - 2.87% to 3.18%

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

Consolidated

	2014	2013	2012
(In Millions of Pesos)			
Interest income			
Subsidiaries	10	5	76
Associates	-	-	3
AC	384	127	119
Subsidiaries of AC	582	368	88
Key management personnel	-	-	-
Other related parties	16	-	-
	992	500	286
Other income			
Subsidiaries	817	1,018	973
Associates	-	577	370
AC	37	16	22
Subsidiaries of AC	798	(75)	62
Key management personnel	-	-	-
	1,652	1,536	1,427
Interest expense			
Subsidiaries	10	5	21
Associates	2	3	-
Ayala Group	118	68	301
Key management personnel	20	5	2
	150	81	324

NOTES TO FINANCIAL STATEMENTS (continued)

	2014	2013	2012
Other expenses			
Subsidiaries	101	1,003	905
Associates	-	-	-
AC	116	175	132
Subsidiaries of AC	277	42	49
Key management personnel	-	-	-
	494	1,220	1,086
Retirement benefits			
Key management personnel	58	33	39
Salaries, allowances and other short-term benefits			
Key management personnel	673	701	556
Directors' remuneration	69	57	51
Parent			
	2014	2013	2012
	(In Millions of Pesos)		
Interest income			
Subsidiaries	1	2	56
Associates	-	-	3
AC	384	127	119
Subsidiaries of AC	582	368	82
Key management personnel	-	-	-
Other related parties	16	-	-
	983	497	260
Other income			
Subsidiaries	708	585	577
Associates	-	577	370
AC	-	-	-
Subsidiaries of AC	729	(131)	-
Key management personnel	-	-	-
	1,437	1,031	947
Interest expense			
Subsidiaries	9	5	7
Associates	2	3	-
Ayala Group	115	68	301
Key management personnel	15	5	2
	141	81	310
Other expenses			
Subsidiaries	45	900	343
Associates	-	-	-
AC	116	175	132
Subsidiaries of AC	51	42	49
Key management personnel	-	-	-
	212	1,117	524
Retirement benefits			
Key management personnel	49	29	36
Salaries, allowances and other short-term benefits			
Key management personnel	570	570	487
Directors' remuneration	61	50	38

Other income mainly consists of rental income and revenue from service arrangements with related parties. Also, in November 2014, an investment property was sold to a related party for P1.59 billion resulting in a gain of P729 million. In March 2013, a loss arising from sale of an impaired investment property was recognized.

Other expenses mainly consist of rental expenses and management fees.

There were no provisions recognized against receivables from related parties. Also, no additional provision was recognized during the year.

Details of DOSRI loans are as follows:

	Consolidated		Parent	
	2014	2013	2014	2013
	(In Millions of Pesos)			
Outstanding DOSRI loans	21,458	6,871	21,428	6,837
	In percentages (%)			
	Consolidated		Parent	
	2014	2013	2014	2013
% to total outstanding loans and advances	2.65	1.07	3.41	1.42
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	17.26	28.23	17.28	28.23
Past due DOSRI loans	0.05	0.15	0.05	0.15
Non-performing DOSRI loans	0.04	0.14	0.04	0.14

At December 31, 2014 and 2013, the BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans.

Note 31 - 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 3.1.4) that are not presented in the financial statements. The BPI Group does not anticipate any material losses from these commitments.

Note 32 - Events After the Reporting Date

BPI entered into an agreement to sell its merchant acquiring business to Global Payments Asia Pacific-Philippines, Inc. (GPAP) and to subscribe to primary shares of GPAP for a 49% stake in the entity. The transaction is currently pending regulatory approval and is expected to be completed in the second quarter of 2015.

Note 33 - Supplementary information required by the Bureau of Internal Revenue

Supplementary information required by Revenue Regulations No. 15-2010

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 for the year ended December 31, 2014 consist of:

(In Millions of Pesos)	Amount
Deposit and loan documents	2,749
Trade finance documents	178
Mortgage documents	90
Others	4
	3,021

A portion of the amount disclosed above was passed on to the counterparties.

NOTES TO FINANCIAL STATEMENTS (continued)

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2014 consist of:

(In Millions of Pesos)	Amount		
	Paid	Accrued	Total
Income taxes withheld on compensation	1,835	199	2,034
Final income taxes withheld on interest on deposits and yield on deposit substitutes	903	116	1,019
Creditable income taxes withheld (expanded)	706	85	791
Final income taxes withheld on income payment	606	25	631
Fringe benefit tax	35	30	65
VAT withholding tax	26	10	36
	4,111	465	4,576

(iii) All other local and national taxes

All other local and national taxes paid/accrued for the year ended December 31, 2014 consist of:

(In Millions of Pesos)	Amount		
	Paid	Accrued	Total
Gross receipts tax	2,310	259	2,569
Real property tax	116	-	116
Municipal taxes	83	-	83
Others	34	-	34
	2,543	259	2,802

(iv) Tax cases and assessments

As at reporting date, the Parent Bank has outstanding cases filed in courts against local government units contesting certain local tax assessments and with the tax authorities for various claims for tax refund. Management is of the opinion that the ultimate outcome of these cases will not have a material impact on the financial statements of the Parent Bank. Also, the taxable years 2011, 2012 and 2013 remain open, for which no assessment has yet been received.



Isla Lipana & Co.

Statements Required by Rule 68, Part I, Section 4
Securities Regulation Code (SRC),
As Amended on October 20, 2011

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

We have audited the financial statements of the Bank of the Philippine Islands, as at and for the year ended December 31, 2014, on which we have rendered the attached report dated February 20, 2015. The supplementary information shown in the Reconciliation of Retained Earnings Available for Dividend Declaration, Map of the Conglomerate or Group of Companies within which the Bank of the Philippine Islands belongs and the Schedule of Philippine Financial Reporting Standards effective as at December 31, 2014, as additional components required by Part I, Section 4 of Rule 68 of the Securities Regulation Code, and Schedules A, B, C, D, E, F, G and H, as required by Part II, Section 6 of Rule 68 of the Securities Regulation Code, is presented for the purposes of filing with the Securities and Exchange Commission and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the supplementary information has been prepared in accordance with Rule 68 of the Securities Regulation Code.

Isla Lipana & Co.


John-John Patrick V. Lim
Partner

CPA Cert. No. 83389

P.T.R. No. 0007706, issued on January 6, 2015, Makati City

SEC A.N. (individual) as general auditors 0050-AR-3, Category A; effective until January 17, 2016

SEC A.N. (firm) as general auditors 0009-FR-3; effective until August 15, 2015

TIN 112-071-386

BIR A.N. 08-000745-17-2013, issued on April 4, 2013; effective until April 3, 2016

BOA/PRC Reg. No. 0142, effective until December 31, 2016

Makati City

February 20, 2015

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BANK OF THE PHILIPPINE ISLANDS
Financial Indicators
December 31, 2014 and 2013

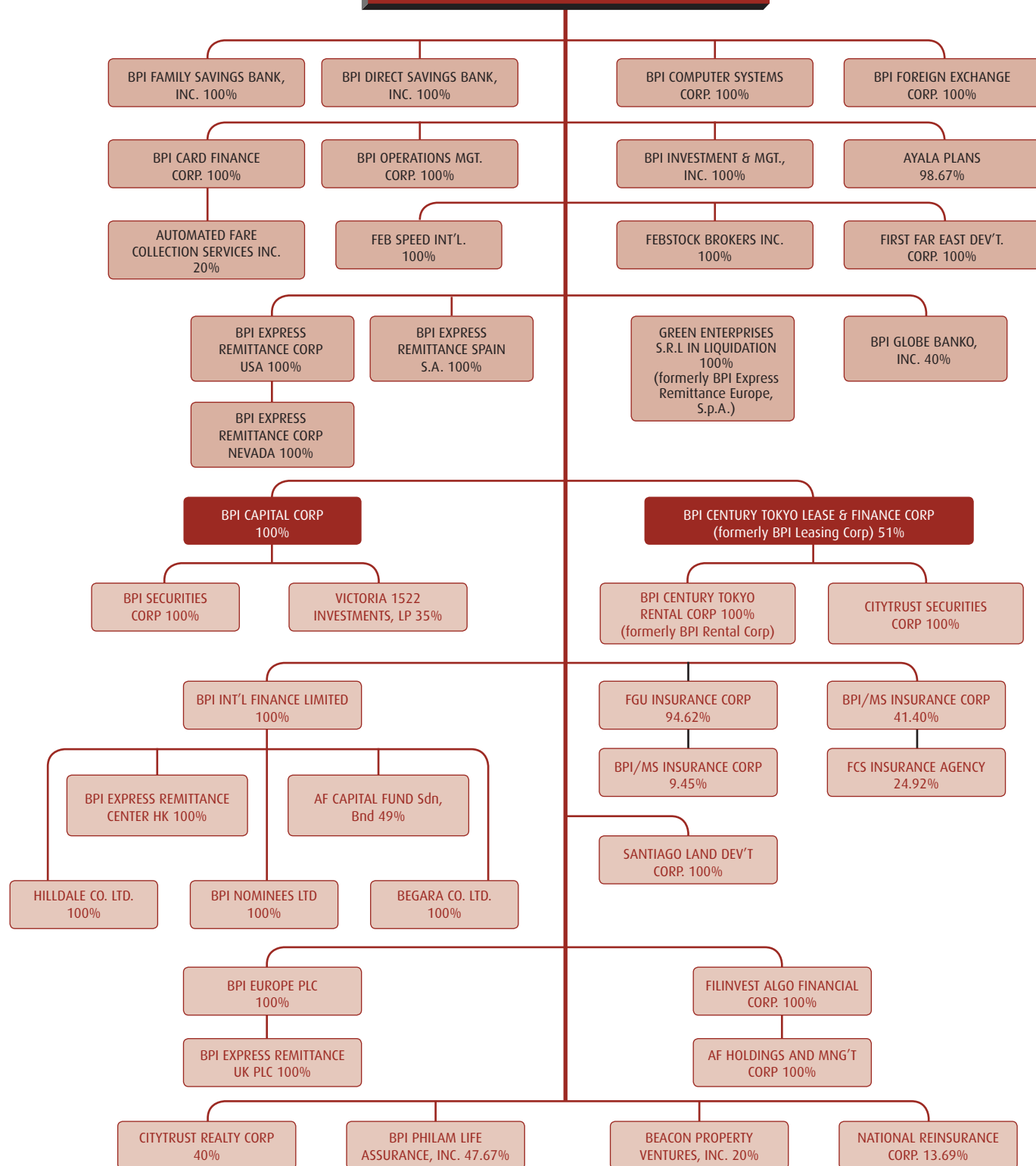
	2014	2013
Liquidity Ratio	60.89%	73.39%
Debt-to-Equity Ratio	22.90%	25.04%
Asset-to-Equity Ratio	1006.64%	1143.52%
Interest Rate Coverage Ratio	337.90%	353.93%
Return on Equity Ratio	13.75%	18.05%
Return on Assets	1.44%	1.87%
Cost to Income Ratio	53.70%	50.86%
Cost to Assets Ratio	2.39%	2.66%
Capital to Assets Ratio	9.93%	8.74%
Net Interest Margin	3.03%	3.32%

RECONCILIATION OF RETAINED EARNINGS FOR DIVIDEND DECLARATION

As of December 31, 2014
(In Millions of Pesos)

BANK OF THE PHILIPPINE ISLANDS	
BPI Building, 6768 Ayala Avenue, Corner Paseo de Roxas	
Makati City	
Unappropriated Retained Earnings, based on audited financial statements, December 31, 2013	32,053
Add: Net income actually earned/realized during the period	13,270
Less: Non-actual/unrealized income net of tax	
Equity in Net income of associate/joint venture	-
Unrealized foreign exchange gain - net (except Cash and Cash Equivalents)	1,114
Unrealized actuarial gain	-
Unrealized trading gain	349
Fair value adjustment of Investment Property resulting to gain	-
Adjustment due to deviation from PFRS/GAAP-gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS	-
Subtotal	1,463
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRS/GAAP - loss	-
Loss on fair value adjustment of investment property (after tax)	-
Subtotal	-
Net income actually earned during the period	11,807
Add (Less):	
Dividend declarations during the period	(3,538)
Appropriations of Retained Earnings during the period	(398)
Reversals of appropriations	-
Effects of prior period adjustments/others	-
Treasury shares	-
	(3,936)
Total Retained Earnings, End Available for Dividend	39,924

BANK OF THE PHILIPPINE ISLANDS



BANK OF THE PHILIPPINE ISLANDS SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS Effective as at December 31, 2014

The following table summarizes the effective standards and interpretations as at December 31, 2014:

	ADOPTED	NOT ADOPTED	NOT APPLICABLE
Framework for the Preparation and Presentation of Financial Statements			
Conceptual Framework Phase A: Objectives and qualitative characteristics	✓		
PFRSs Practice Statement Management Commentary			✓
Philippine Financial Reporting Standards			
PFRS 1 (Revised)			
First-time Adoption of Philippine Financial Reporting Standards			✓
Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
Amendments to PFRS 1: Government Loans			✓
PFRS 2			
Share-based Payment	✓		
Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
PFRS 3 (Revised)			
Business Combinations	✓		
PFRS 4			
Insurance Contracts	✓		
Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
PFRS 5			
Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6			
Exploration for and Evaluation of Mineral Resources			✓
PFRS 7			
Financial Instruments: Disclosures	✓		
Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
PFRS 8			
Operating Segments	✓		
PFRS 9			
Financial Instruments		✓	
Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
PFRS 10			
Consolidated Financial Statements	✓		
Amendments to PFRS 10, 12 and PAS 27: Consolidation for investment entities	✓		
PFRS 11			
Joint Arrangements	✓		
PFRS 12			
Disclosure of Interests in Other Entities	✓		
PFRS 13			
Fair Value Measurement	✓		
PFRS 14			
Regulatory Deferral Accounts			✓
PFRS 15			
Revenue from Contracts with Customers		✓	

BANK OF THE PHILIPPINE ISLANDS
SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS
Effective as at December 31, 2014

	ADOPTED	NOT ADOPTED	NOT APPLICABLE
Philippine Accounting Standards			
PAS 1 (Revised)			
Presentation of Financial Statements	✓		
Amendment to PAS 1: Capital Disclosures	✓		
Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
PAS 2			✓
Inventories			✓
PAS 7	✓		
Statement of Cash Flows	✓		
PAS 8	✓		
Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	✓		
Events after the Reporting Period	✓		
PAS 11			✓
Construction Contracts			✓
PAS 12	✓		
Income Taxes	✓		
Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	✓		
Property, Plant and Equipment	✓		
PAS 17	✓		
Leases	✓		
PAS 18	✓		
Revenue	✓		
PAS 19 (Revised)	✓		
Employee Benefits	✓		
PAS 20			✓
Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	✓		
The Effects of Changes in Foreign Exchange Rates	✓		
Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	✓		
Borrowing Costs	✓		
PAS 24 (Revised)	✓		
Related Party Disclosures	✓		
PAS 26			✓
Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	✓		
Separate Financial Statements	✓		
PAS 28 (Amended)	✓		
Investments in Associates and Joint Ventures	✓		
PAS 29			✓
Financial Reporting in Hyperinflationary Economies			✓
PAS 31	✓		
Interests in Joint Ventures	✓		
PAS 32	✓		
Financial Instruments: Disclosure and Presentation	✓		
Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
Amendment to PAS 32: Classification of Rights Issues	✓		
Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
Amendments to PAS 32: Financial Instruments Assets and Liability Offsetting	✓		
PAS 33	✓		
Earnings per Share	✓		
PAS 34	✓		
Interim Financial Reporting	✓		
PAS 36	✓		
Impairment of Assets	✓		
Amendment to PAS 36: Impairment of assets - Recoverable amount disclosures	✓		
PAS 37	✓		
Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	✓		
Intangible Assets	✓		

BANK OF THE PHILIPPINE ISLANDS
SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS
Effective as at December 31, 2014

	ADOPTED	NOT ADOPTED	NOT APPLICABLE
PAS 39	✓		
Financial Instruments: Recognition and Measurement	✓		
Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
Amendments to PAS 39: The Fair Value Option			✓
Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives	✓		
Amendment to PAS 39: Eligible Hedged Items			✓
Amendment to PAS 39: Financial Instruments: Recognition and Measurement - Novation of Derivatives and Hedge Accounting		✓	
PAS 40	✓		
Investment Property	✓		
PAS 41			✓
Agriculture			✓
Philippine Interpretations			
IFRIC 1			✓
Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2			✓
Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	✓		
Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5			✓
Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6			✓
Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7			✓
Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	✓		
Scope of PFRS 2	✓		
IFRIC 9	✓		
Reassessment of Embedded Derivatives	✓		
Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10			✓
Interim Financial Reporting and Impairment			✓
IFRIC 11	✓		
PFRS 2- Group and Treasury Share Transactions	✓		
IFRIC 12			✓
Service Concession Arrangements			✓
IFRIC 13	✓		
Customer Loyalty Programmes	✓		
IFRIC 14			✓
The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16			✓
Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17			✓
Distributions of Non-cash Assets to Owners			✓
IFRIC 18			✓
Transfers of Assets from Customers			✓
IFRIC 19			✓
Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20			✓
Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21			✓
Levies			✓
SIC-7			✓
Introduction of the Euro			✓
SIC-10			✓
Government Assistance - No Specific Relation to Operating Activities			✓

BANK OF THE PHILIPPINE ISLANDS
SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS
 Effective as at December 31, 2014

		ADOPTED	NOT ADOPTED	NOT APPLICABLE
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

The standards and interpretations that are labelled as "Not Applicable" are already effective as at December 31, 2014 but will never be relevant/applicable to the Bank or are currently not relevant to the Bank because it has currently no related transactions.

The standards, amendments and interpretations that have been issued but not yet effective and not early adopted as at December 31, 2014 are marked as "Not Adopted".

PRODUCTS AND SERVICES

DEPOSITS

Peso deposits

Checking
Savings
Time

Foreign Currency Deposits

Savings
Time

Deposit Substitute

LOANS

Commercial Loans

Revolving Credit
Term Loans
Trade Finance
Fleet and Floor Stock Financing
Project Finance
Receivables Financing
Property Equity Credit Line
Franchising Loans

Sustainable Energy Financing

Energy Efficiency Loans
Renewable Energy Loans

Consumer Loans

Auto Loan
Housing Loan
Ka-Negosyo Business Loans
Ka-Negosyo Franchising Loan
Ka-Negosyo Term Loan
Ka-Negosyo Credit Line

Agribusiness Loans

Piggery
Poultry
Post-Harvest

Leasing

Finance Lease
Operating Lease
Full Service Operating Lease
Lease Syndication
Trade Receivable Discounting

Microfinance

Microsavings
Microloans
Personal loans
Retailer loans
Multipurpose
Business loans
Microinsurance

Global Investment/Wealth Management Services (Hong Kong)

Multi-Currency Time Deposits
Consumer Loans
Global Securities (Broker/Dealer) Account
Foreign Currency Bonds
Foreign Currency Investment Funds
Foreign Currency Equities
Investment Management Account
Foreign Exchange

PAYMENTS & SETTLEMENT SERVICES

Self-Service Banking Channels

Express Phone
Express Online
Express Online Kiosks
Express Mobile
Express Teller ATM
Express Deposit Machines
BPI Trade

Cards and Payments

Debit Cards
Credit Cards
Prepaid Cards
Merchant Payment Facilities

Payment and Settlement Facilities

Bills Payment
Funds Transfer
Remittance
Cash Remittance
Credit to Direct account Cash
Pick-Up at accredited outlets Cash
Pick-Up at BPI/BPI Family Bank Branch
Door-to-Door
Credit to Other Bank's Account Gift
Remittance
Prepaid Reloading

International Wire Payments

Corporate Cash Management

ExpressLink
Collections
Disbursement
Account and Liquidity Management,
Trade and Loan Inquiry

FI Depository Services

Peso Vostro Services

ASSET MANAGEMENT & TRUST

Institutional Fund Management

Fund Management Solutions

Corporate and Institutional Funds
Corporations
Educational Institutions
Religious Organizations
Foundations
Pension and Provident Funds
Other Fiduciary Solutions
Mortgage Trust Indenture
Escrow Agency
Securities Custody Account
Asset or Mortgage-Backed Security
Facility Agency or Bond Trusteeship

Wealth Management

Living Trust/Long-Term Living Trust
Investment Management Account/Long-Term Investment Management Account
Securities Custody Account
Regular Subscription Plan
Personal Equity and Retirement Account (PERA)

Investment Funds

BPI Investment Funds
BPI Short Term Fund
BPI Money Market Fund
BPI Premium Bond Fund
BPI Balanced Fund
BPI Philippine High Dividend Equity Fund
BPI Equity Value Fund
BPI Global Philippine Fund
BPI Global Bond Fund-of-Funds
BPI Global Equity Fund-of-Funds
Odyssey Funds
Odyssey Peso Cash Management Fund
Odyssey Peso Income Fund
Odyssey Peso Bond Fund
Odyssey Diversified Capital Fund
Odyssey Diversified Balanced Fund
Odyssey Philippine Equity Fund
Odyssey Philippine High Conviction Equity Fund
Odyssey Emerging Market Bond Fund
Odyssey Philippine Dollar Bond Fund
Odyssey Asia Pacific High Dividend Equity Fund
Odyssey Tax Exempt Peso Fixed Income Fund
Odyssey Tax Exempt Philippine Equity Fund

BPI Index Funds

ABF Philippines Bond Index Fund
BPI Philippine Equity Index Fund
Philippine Stock Index Fund*
Philippine Dollar Bond Index Fund
BPI US Equity Index Feeder Fund
BPI European Equity Index Feeder Fund
Mutual Funds*
ALFM Money Market Fund
ALFM Peso Bond Fund
ALFM Euro Bond Fund
ALFM Dollar Bond Fund
ALFM Growth Fund
Other Mutual Funds managed and distributed by BIM
Ekklesia Mutual Fund
Bahay Pari Solidaritas Fund

INVESTMENT BANKING

Capital Raising

Debt Underwriting
Equity Underwriting
Loan Syndication
Project Finance
Acquisition Financing
Securitization
Structured Debt

Financial Advisory

Mergers & Acquisitions
Capital Restructuring
Liability Management
Business Divestment
Strategic Legal Advisory

Dealership & Brokerage

Equities
Fixed Income Securities

Proprietary Investments

Merchant Banking

Philippine Sovereign Debt Instruments

Treasury Bills and Notes
Retail Treasury Bonds
Republic of the Philippines Bonds

Selected Sovereign Bonds

Private Securities

Bank Issues
Commercial Paper
Corporate Promissory Notes and Bonds
Equities

Broker/Dealer of Philippine Equities

Online Trading
Broker Assisted Trading
Broker Assisted Advisory
Securities Custodianship and Warehousing
Corporate Actions
Initial Public Offering
Follow-on Offering/ Secondary Offering
Tender Offering (Voluntary/ Mandatory)
Stock Rights Offering
Stock Split
Stock Dividend
Cash Dividend
Property Dividend
Warrants
Fundamental Research
Investment Research

Foreign Exchange

Foreign Exchange Spot
Foreign Exchange Forward
Non-deliverable Forward
Foreign Exchange Swaps
Foreign Exchange Sales
Hedging Advisory

Derivatives

Interest Rate Swaps
Cross Currency Swaps
Non Deliverable Swaps

INSURANCE SERVICES

Life

Individual Accounts
Variable Life/Unit Linked Plans
Invest Plus Dollar
Invest Plus Peso
Build Plus Peso
Life Extreme Protect
Traditional/Ordinary Life
HealthSave 10
Life Protect
Life Protect Health
Accident Guard
Direct Marketing/Telemarketing
Accidental Protection Plan
Savings Protection Plan
Credit Secure
Life Secure Plus
Hospital Protection Plan
Pinoy Family Protect
Critical Protection Plan

Corporate Accounts

Group Term Life
Group Accident
Group Credit Life
Group Critical Illness

Non-Life

Fire
Motor
Engineering
Marine & Aviation
Bonds
Personal Accident
Casualty
Trade Credit

ANCILLARY SERVICES

Contact Center Services

Economic Research

*BPI Investment Management Inc., a wholly-owned subsidiary of BPI, is the fund manager and principal distributor of the ALFM Mutual Funds, including the Philippine Stock Index Fund, Bahay Pari Solidaritas Fund and Ekklesia Mutual Fund. BPI serves as investment advisor to all the mutual funds managed and distributed by BPI Investment Management Inc.

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Quezon Avenue Delta Station

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Quezon City, Philippines
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Mabini Station

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