
Bank of the Philippine Islands

Financial Statements

**As at December 31, 2021 and 2020 and for each of the three
years in the period ended December 31, 2021**



Independent Auditor's Report

To the Board of Directors and Shareholders of
Bank of the Philippine Islands
Ayala North Exchange
Ayala Avenue corner Salcedo Street, Legaspi Village,
Makati City

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying consolidated financial statements of the Bank of the Philippine Islands and Subsidiaries (the "BPI Group") and the parent financial statements of the Bank of the Philippine Islands (the "Parent Bank") present fairly, in all material respects, the financial position of the BPI Group and of the Parent Bank as at December 31, 2021 and 2020, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2021 in accordance with Philippine Financial Reporting Standards ("PFRSs").

What we have audited

The financial statements comprise:

- the consolidated and parent statements of condition as at December 31, 2021 and 2020;
- the consolidated and parent statements of income for each of the three years in the period ended December 31, 2021;
- the consolidated and parent statements of total comprehensive income for each of the three years in the period ended December 31, 2021;
- the consolidated and parent statements of changes in capital funds for each of the three years in the period ended December 31, 2021;
- the consolidated and parent statements of cash flows for each of the three years in the period ended December 31, 2021; and
- the notes to the consolidated and parent financial statements, which include a summary of significant accounting policies.

Basis for Opinion

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

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



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Independence

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

Our Audit Approach

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

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

Key audit matters

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

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

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Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Impairment losses on loans and advances</p> <p>We focused on this account because of the complexity involved in the estimation process, and the significant judgments that management makes in ascertaining the provision for loan impairment. The calculation of impairment losses is inherently judgmental for any bank. As at December 31, 2021, the total allowance for impairment for loans and advances amounted to PHP53,764 million for the BPI Group and PHP40,864 million for the Parent Bank while provision for loan losses recognized in profit or loss for the year then ended amounted to PHP12,765 million for the BPI Group and PHP10,226 million for the Parent Bank. Refer to Notes 10 and 26 of the financial statements for the details of the impairment losses on loans and advances.</p> <p>Provision for impairment losses on loans that are assessed to be individually credit impaired is determined in reference to the estimated future cash repayments and proceeds from the realization of collateral held by the BPI Group and the Parent Bank.</p> <p>For other loan accounts which are not individually credit impaired, they are included in a group of loans with similar risk characteristics and are collectively assessed on a portfolio basis using internal models developed by the BPI Group and the Parent Bank.</p>	<p>We assessed the design and tested the operating effectiveness of key controls over loan loss provisioning. These key controls included:</p> <ul style="list-style-type: none"> • governance over the development, validation and approval of the BPI Group's ECL models to assess compliance with Philippine Financial Reporting Standard (PFRS) 9, <i>Financial instruments</i>; including continuous re-assessment by the BPI Group that the impairment models are operating in a way which is appropriate for the credit risks in the BPI Group and the Parent Bank's loan portfolios; • review and approval of key judgments, assumptions and forward-looking information used in the ECL models; • review of data from source systems to the detailed ECL model analyses; • assessment of credit quality of loans and advances relative to the established internal credit risk rating system; • the review and approval process for the outputs of the impairment models; and • the review and approval process over the determination of credit risk rating, performance of credit reviews and calculation of required reserves for loans assessed as credit-impaired. <p>Our work over the impairment of loans and advances included:</p> <ul style="list-style-type: none"> • assessment of the methodology applied by the BPI Group and the Parent Bank in the development of the ECL models vis-a-vis the requirements of PFRS 9; • testing of key assumptions in the ECL models such as PD, LGD, EAD built from historical data. Our assessment included the involvement of our internal specialist;



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Key Audit Matter	How our audit addressed the Key Audit Matter
<p><i>(cont'd.)</i></p> <p>Key elements in the impairment of loans and advances include:</p> <ul style="list-style-type: none">• the identification of credit-impaired loans, and estimation of cash flows (including the expected realizable value of any collateral held) supporting the calculation of individually assessed provisions; and• the application of appropriate impairment models for the collectively assessed accounts. This include the use of key assumptions in the impairment models (i.e., staging of accounts, significant increase in credit risk, forward-looking information), the exposure at default (EAD), the probability of default (PD) and the loss given default (LGD). <p>The impairment losses include both quantitative and qualitative components. In calculating the loan loss provisioning, the BPI Group and the Parent Bank applied the expected credit loss (ECL) model prescribed by PFRS 9, which is a complex process that takes into account forward-looking information reflecting the BPI Group and the Parent Bank's view on potential future economic events.</p>	<ul style="list-style-type: none">• assessment of the appropriateness of the BPI Group's and the Parent Bank's definition of significant increase in credit risk and staging of accounts through analysis of historical trends and past credit behavior of loan portfolios;• independent comparison of economic information used within, and weightings applied to, forward-looking scenarios in the ECL models against available macro-economic data;• testing of the accuracy and completeness of data inputs in the ECL models and in the ECL calculation by comparing them with the information obtained from source systems;• testing the accuracy and reasonableness of the outputs of the ECL models through independent recalculation;• for a sample of individually assessed loans identified as credit-impaired, examined relevant supporting documents such as the latest financial information of the borrower or valuation of collateral used as a basis in estimating the recoverable amount and measuring the loan loss allowance; and• recalculation of the collective loan loss allowance for selected accounts and portfolios at reporting date using the ECL models adopted by the BPI Group and the Parent Bank.



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Other Information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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



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

- Identify and assess the risks of material misstatement of the consolidated and parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BPI Group's and of the Parent Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of each entity within the BPI Group and the Parent Bank to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entities within the BPI Group and the Parent Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and parent financial statements, including the disclosures, and whether the consolidated and parent financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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



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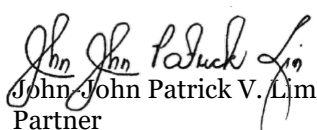
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and parent financial statements of the current period and is therefore the key audit matter. We describe these matters in our auditor's report unless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

Report on the Supplementary Information Required by the Bangko Sentral ng Pilipinas (BSP) and the Bureau of Internal Revenue (BIR)

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 32 and BIR Revenue Regulations No. 15-2010 in Note 33 to the financial statements is presented for the purposes of filing with the BSP and the BIR, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of the BPI Group and the Parent Bank. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is John-John Patrick V. Lim.

Isla Lipana & Co.


John John Patrick V. Lim
Partner

CPA Cert. No. 83389

P.T.R. No. 0007706; issued on January 6, 2022 at Makati City

SEC A.N. (individual) as general auditors 1775-A, Category A; effective until September 4, 2022

SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024
financial statements

T.I.N. 112-071-386

BIR A.N. 08-000745-017-2021, issued on November 23, 2021; effective until November 22, 2024

BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
February 22, 2022

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
December 31, 2021 and 2020
(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2021	2020	2021	2020
ASSETS					
CASH AND OTHER CASH ITEMS	4	35,143	37,176	33,868	35,912
DUE FROM BANGKO SENTRAL NG PILIPINAS	4	268,827	223,989	197,435	197,974
DUE FROM OTHER BANKS	4	34,572	40,155	27,734	36,605
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	4,5	30,852	30,251	30,023	26,622
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	6,7	21,334	37,210	15,575	33,865
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	8	134,741	130,186	115,541	120,300
INVESTMENT SECURITIES AT AMORTIZED COST, net	9	338,672	244,653	333,193	216,810
LOANS AND ADVANCES, net	10	1,476,527	1,407,413	1,233,052	1,175,071
ASSETS HELD FOR SALE, net		3,282	2,971	505	357
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	11	17,525	18,832	15,243	16,131
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net	12	7,165	7,510	15,556	11,039
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	2	17,563	18,726	-	-
DEFERRED INCOME TAX ASSETS, net	13	15,819	17,525	11,953	12,838
OTHER ASSETS, net	14	19,893	16,846	21,648	14,412
Total assets		2,421,915	2,233,443	2,051,326	1,897,936

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
December 31, 2021 and 2020
(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2021	2020	2021	2020
LIABILITIES AND CAPITAL FUNDS					
DEPOSIT LIABILITIES	15	1,955,147	1,716,177	1,675,785	1,470,210
DERIVATIVE FINANCIAL LIABILITIES	7	3,632	5,657	3,545	5,657
BILLS PAYABLE AND OTHER BORROWED FUNDS	16	95,039	151,947	82,550	140,348
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		953	1,491	814	1,491
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		6,931	7,108	5,243	5,447
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		8,413	8,902	6,127	6,510
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	2	13,242	14,347	-	-
DEFERRED CREDITS AND OTHER LIABILITIES	17	43,402	45,857	33,762	37,103
Total liabilities		2,126,759	1,951,486	1,807,826	1,666,766
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI	18				
Share capital		45,131	45,045	45,131	45,045
Share premium		74,934	74,764	74,934	74,764
Reserves		564	416	160	196
Accumulated other comprehensive loss		(8,670)	(5,899)	(6,825)	(4,288)
Surplus		181,101	165,509	130,100	115,453
		293,060	279,835	243,500	231,170
NON-CONTROLLING INTERESTS		2,096	2,122	-	-
Total capital funds		295,156	281,957	243,500	231,170
Total liabilities and capital funds		2,421,915	2,233,443	2,051,326	1,897,936

(The notes on pages 1 to 101 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF INCOME
For each of the three years in the period ended December 31, 2021
(In Millions of Pesos)

	Notes	Consolidated			Parent		
		2021	2020	2019	2021	2020	2019
INTEREST INCOME							
On loans and advances		72,225	82,312	86,056	53,426	63,599	67,895
On investment securities		10,436	12,052	12,709	9,949	10,786	11,776
On deposits with BSP and other banks		1,956	1,944	1,722	1,271	1,343	808
		84,617	96,308	100,487	64,646	75,728	80,479
INTEREST EXPENSE							
On deposits	15	10,168	18,986	28,874	5,587	12,777	21,476
On bills payable and other borrowed funds	16	4,866	5,058	6,038	4,396	4,595	6,031
		15,034	24,044	34,912	9,983	17,372	27,507
NET INTEREST INCOME		69,583	72,264	65,575	54,663	58,356	52,972
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	26	13,135	28,000	5,562	10,591	21,394	4,666
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES		56,448	44,264	60,013	44,072	36,962	48,306
OTHER INCOME							
Fees and commissions		11,204	8,899	9,068	9,051	7,763	8,502
Income from foreign exchange trading		2,384	2,155	2,111	2,206	2,022	1,930
Securities trading gain		97	3,310	3,882	4	2,657	3,574
Income attributable to insurance operations	2	1,854	1,506	1,223	-	-	-
Net gains on disposals of investment securities at amortized cost	9	1,513	4,647	128	1,166	4,078	104
Other operating income	19	10,770	9,142	10,275	13,026	13,459	10,487
		27,822	29,659	26,687	25,453	29,979	24,597
OTHER EXPENSES							
Compensation and fringe benefits	21	18,528	18,005	17,369	14,094	13,870	13,479
Occupancy and equipment-related expenses	11,20	16,010	14,606	14,736	13,352	12,544	12,943
Other operating expenses	21	16,195	15,543	16,239	12,220	11,788	12,058
		50,733	48,154	48,344	39,666	38,202	38,480
PROFIT BEFORE INCOME TAX		33,537	25,769	38,356	29,859	28,739	34,423
INCOME TAX EXPENSE							
Current	22	8,328	10,751	9,975	6,701	9,272	8,788
Deferred	13	1,099	(6,845)	(620)	375	(5,144)	(583)
		9,427	3,906	9,355	7,076	4,128	8,205
NET INCOME FROM CONTINUING OPERATIONS		24,110	21,863	29,001	22,783	24,611	26,218
NET (LOSS) INCOME FROM DISCONTINUED OPERATIONS	12	-	(211)	82	-	-	-
NET INCOME AFTER TAX		24,110	21,652	29,083	22,783	24,611	26,218

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF INCOME
For each of the three years in the period ended December 31, 2021
(In Millions of Pesos, Except Per Share Amounts)

	Note	Consolidated			Parent		
		2021	2020	2019	2021	2020	2019
<i>(forwarded)</i>							
Basic and diluted earnings per share attributable to the equity holders of BPI during the year from:							
Continuing operations	18	5.29	4.79	6.38	5.05	5.45	5.82
Discontinued operations		-	(0.05)	0.01	-	-	-
Income (loss) attributable to equity holders of BPI arising from:	18						
Continuing operations		23,880	21,620	28,761	22,783	24,611	26,218
Discontinued operations		-	(211)	42	-	-	-
		23,880	21,409	28,803	22,783	24,611	26,218
Income attributable to the non-controlling interests arising from:							
Continuing operations		230	243	240	-	-	-
Discontinued operations		-	-	40	-	-	-
		230	243	280	-	-	-
Income attributable to							
Equity holders of BPI		23,880	21,409	28,803	22,783	24,611	26,218
Non-controlling interests		230	243	280	-	-	-
		24,110	21,652	29,083	22,783	24,611	26,218

(The notes on pages 1 to 101 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF TOTAL COMPREHENSIVE INCOME
For each of the three years in the period ended December 31, 2021
(In Millions of Pesos)

	Note	Consolidated			Parent		
		2021	2020	2019	2021	2020	2019
NET INCOME FROM CONTINUING OPERATIONS		24,110	21,863	29,001	22,783	24,611	26,218
OTHER COMPREHENSIVE (LOSS) INCOME	18						
Items that may be subsequently reclassified to profit or loss							
Share in other comprehensive (loss) income of associates		(728)	640	1,286	-	-	-
Net change in fair value reserve on investments in debt instruments measured at FVOCI, net of tax effect		(548)	428	262	(506)	428	249
Fair value reserve on investments of insurance subsidiaries, net of tax effect		(209)	195	545	-	-	-
Currency translation differences and others		627	(238)	(202)	291	(167)	(124)
Items that will not be reclassified to profit or loss							
Remeasurements of defined benefit obligation		608	(3,383)	(1,402)	431	(2,798)	(1,141)
Share in other comprehensive income (loss) of associates		448	(1,242)	(32)	-	-	-
Net change in fair value reserve on investments in equity instruments measured at FVOCI, net of tax effect		(3,041)	215	(313)	(2,753)	565	(379)
Total other comprehensive (loss) income, net of tax effect from continuing operations		(2,843)	(3,385)	144	(2,537)	(1,972)	(1,395)
Total comprehensive income for the year from continuing operations		21,267	18,478	29,145	20,246	22,639	24,823
NET (LOSS) INCOME FROM DISCONTINUED OPERATIONS		-	(211)	82	-	-	-
Total other comprehensive loss, net of tax effect from discontinued operations		-	(3)	(16)	-	-	-
Total comprehensive (loss) income, for the year from discontinued operations		-	(214)	66	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		21,267	18,264	29,211	20,246	22,639	24,823
Total comprehensive income (loss) attributable to equity holders of BPI arising from:							
Continuing operations		21,109	18,163	28,735	20,246	22,639	24,823
Discontinued operations		-	(214)	34	-	-	-
		21,109	17,949	28,769	20,246	22,639	24,823
Total comprehensive income attributable to the non-controlling interest arising from:							
Continuing operations		158	315	410	-	-	-
Discontinued operations		-	-	32	-	-	-
		158	315	442	-	-	-
Total comprehensive income attributable to:							
Equity holders of BPI		21,109	17,949	28,769	20,246	22,639	24,823
Non-controlling interests		158	315	442	-	-	-
		21,267	18,264	29,211	20,246	22,639	24,823

(The notes on pages 1 to 101 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN CAPITAL FUNDS
For each of the three years in the period ended December 31, 2021
(In Millions of Pesos)

	Consolidated							
	Attributable to equity holders of BPI (Note 18)							
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total	Non-controlling interests	Total equity
Balance, January 1, 2019	44,961	74,181	4,096	127,459	(2,176)	248,521	3,017	251,538
Comprehensive income								
Net income for the year	-	-	-	28,803	-	28,803	280	29,083
Other comprehensive income (loss) for the year	-	-	-	-	(34)	(34)	162	128
Total comprehensive income (loss) for the year	-	-	-	28,803	(34)	28,769	442	29,211
Transactions with owners								
Exercise of stock option plans	38	268	30	-	-	336	-	336
Cash dividends	-	-	-	(8,113)	-	(8,113)	-	(8,113)
Total transactions with owners	38	268	30	(8,113)	-	(7,777)	-	(7,777)
Transfer from surplus to reserves	-	-	2,002	(2,002)	-	-	-	-
Transfer from reserves to surplus	-	-	(1,020)	1,020	-	-	-	-
Other movements	-	-	-	293	(229)	64	(2)	62
	-	-	982	(689)	(229)	64	(2)	62
Balance, December 31, 2019	44,999	74,449	5,108	147,460	(2,439)	269,577	3,457	273,034
Comprehensive income								
Net income for the year	-	-	-	21,409	-	21,409	243	21,652
Other comprehensive (loss) income for the year	-	-	-	-	(3,460)	(3,460)	72	(3,388)
Total comprehensive income (loss) for the year	-	-	-	21,409	(3,460)	17,949	315	18,264
Transactions with owners								
Exercise of stock option plans	46	315	47	-	-	408	-	408
Cash dividends	-	-	-	(8,124)	-	(8,124)	-	(8,124)
Total transactions with owners	46	315	47	(8,124)	-	(7,716)	-	(7,716)
Transfer from reserves to surplus	-	-	(4,739)	4,739	-	-	-	-
Other movements	-	-	-	25	-	25	(1,650)	(1,625)
	-	-	(4,739)	4,764	-	25	(1,650)	(1,625)
Balance, December 31, 2020	45,045	74,764	416	165,509	(5,899)	279,835	2,122	281,957
Comprehensive income								
Net income for the year	-	-	-	23,880	-	23,880	230	24,110
Other comprehensive loss for the year	-	-	-	-	(2,771)	(2,771)	(72)	(2,843)
Total comprehensive income (loss) for the year	-	-	-	23,880	(2,771)	21,109	158	21,267
Transactions with owners								
Exercise of stock option plans	86	170	(41)	-	-	215	-	215
Cash dividends	-	-	-	(8,124)	-	(8,124)	(184)	(8,308)
Total transactions with owners	86	170	(41)	(8,124)	-	(7,909)	(184)	(8,093)
Transfer from reserves to surplus	-	-	190	(190)	-	-	-	-
Other movements	-	-	-	25	-	25	-	25
	-	-	190	(165)	-	25	-	25
Balance, December 31, 2021	45,131	74,934	564	181,101	(8,670)	293,060	2,096	295,156

(The notes on pages 1 to 101 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN CAPITAL FUNDS
For each of the three years in the period ended December 31, 2021
(In Millions of Pesos)

	Parent (Note 18)				Accumulated other comprehensive income (loss)	Total
	Share capital	Share premium	Reserves	Surplus		
Balance, January 1, 2019	44,961	74,181	3,977	76,958	(921)	199,156
Comprehensive income						
Net income for the year	-	-	-	26,218	-	26,218
Other comprehensive loss for the year	-	-	-	-	(1,395)	(1,395)
Total comprehensive income (loss) for the year	-	-	-	26,218	(1,395)	24,823
Transactions with owners						
Exercise of stock option plans	38	268	43	-	-	349
Cash dividends	-	-	-	(8,113)	-	(8,113)
Total transactions with owners	38	268	43	(8,113)	-	(7,764)
Transfer from surplus to reserves	-	-	1,892	(1,892)	-	-
Transfer from reserves to surplus	-	-	(1,020)	1,020	-	-
Other movements	-	-	-	35	-	35
	-	-	872	(837)	-	35
Balance, December 31, 2019	44,999	74,449	4,892	94,226	(2,316)	216,250
Comprehensive income						
Net income for the year	-	-	-	24,611	-	24,611
Other comprehensive loss for the year	-	-	-	-	(1,972)	(1,972)
Total comprehensive income (loss) for the year	-	-	-	24,611	(1,972)	22,639
Transactions with owners						
Exercise of stock option plans	46	315	43	-	-	404
Cash dividends	-	-	-	(8,124)	-	(8,124)
Total transactions with owners	46	315	43	(8,124)	-	(7,720)
Transfer from reserves to surplus	-	-	(4,739)	4,739	-	-
Other movements	-	-	-	1	-	1
	-	-	(4,739)	4,740	-	1
Balance, December 31, 2020	45,045	74,764	196	115,453	(4,288)	231,170
Comprehensive income						
Net income for the year	-	-	-	22,783	-	22,783
Other comprehensive loss for the year	-	-	-	-	(2,537)	(2,537)
Total comprehensive income (loss) for the year	-	-	-	22,783	(2,537)	20,246
Transactions with owners						
Exercise of stock option plans	86	170	(36)	-	-	220
Cash dividends	-	-	-	(8,124)	-	(8,124)
Total transactions with owners	86	170	(36)	(8,124)	-	(7,904)
Other movements	-	-	-	(12)	-	(12)
Balance, December 31, 2021	45,131	74,934	160	130,100	(6,825)	243,500

(The notes on pages 1 to 101 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
For each of the three years in the period ended December 31, 2021
(In Millions of Pesos)

	Notes	Consolidated			Parent		
		2021	2020	2019	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before income tax from:							
Continuing operations		33,537	25,769	38,356	29,859	28,739	34,423
Discontinued operations	12	-	(246)	79	-	-	-
		33,537	25,523	38,435	29,859	28,739	34,423
Adjustments for:							
Impairment losses	26	13,135	28,000	5,822	10,591	21,394	4,666
Depreciation and amortization	11,14	6,249	6,023	7,132	5,213	4,860	4,767
Share in net income of associates	12	(1,086)	(487)	(372)	-	-	-
Dividend and other income	19	(30)	(57)	(77)	(6,939)	(7,792)	(3,794)
Share-based compensation	18	(41)	47	30	(36)	44	42
Interest income		(84,617)	(96,308)	(101,583)	(64,646)	(75,728)	(83,279)
Interest received		85,450	98,573	100,293	64,866	77,998	83,294
Interest expense		15,345	24,401	35,638	10,229	17,651	27,507
Interest paid		(15,352)	(25,768)	(35,300)	(10,214)	(18,749)	(27,375)
(Increase) decrease in:							
Interbank loans receivable and securities purchased under agreements to resell		(2,167)	320	1,898	(2,117)	201	1,895
Financial assets at fair value through profit or loss		16,134	(13,270)	(8,472)	18,548	(16,339)	(8,469)
Loans and advances, net		(82,837)	39,921	(125,028)	(68,754)	35,369	(109,711)
Assets held for sale		(355)	173	400	(168)	63	353
Assets attributable to insurance operations		450	(351)	287	-	-	-
Other assets		(4,046)	(3,084)	5,611	(4,556)	(5,609)	5,702
Increase (decrease) in:							
Deposit liabilities		238,976	20,827	109,598	205,581	13,744	109,252
Due to Bangko Sentral ng Pilipinas and other banks		(232)	(150)	(1,041)	(371)	(150)	(1,041)
Manager's checks and demand drafts outstanding		(177)	(1,191)	1,368	(204)	(974)	1,067
Accrued taxes, interest and other expenses		(707)	315	303	(582)	(42)	411
Liabilities attributable to insurance operations		(1,290)	286	5	-	-	-
Derivative financial instruments		(2,025)	2,780	(38)	(2,112)	2,780	(28)
Deferred credits and other liabilities		(337)	(5,668)	8,806	(1,735)	(4,832)	7,245
Net cash from operations		213,977	100,855	43,715	182,453	72,628	46,927
Income taxes paid		(7,497)	(11,601)	(10,363)	(6,008)	(10,080)	(9,135)
Net cash from operating activities		206,480	89,254	33,352	176,445	62,548	37,792

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
For each of the three years in the period ended December 31, 2021
(In Millions of Pesos)

	Notes	Consolidated			Parent		
		2021	2020	2019	2021	2020	2019
<i>(forwarded)</i>							
CASH FLOWS FROM INVESTING ACTIVITIES							
(Increase) decrease in:							
Investment securities, net	8,9	(101,885)	(46,513)	(4,343)	(114,316)	(37,113)	(3,574)
Bank premises, furniture, fixtures and equipment, net	11	(4,806)	(768)	(13,400)	(4,331)	(4,397)	(10,285)
Investment properties, net	14	(12)	6	(57)	(14)	4	(55)
Investment in subsidiaries and associates, net	12	1,432	(1,926)	933	(4,516)	(1,321)	(89)
Assets attributable to insurance operations		804	(481)	(1,368)	-	-	-
Dividends received	19	30	57	77	3,400	7,792	3,794
Net cash used in investing activities		(104,437)	(49,625)	(18,158)	(119,777)	(35,035)	(10,209)
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash dividends paid							
	17,18	(8,124)	(8,124)	(12,167)	(8,124)	(8,124)	(12,165)
Proceeds from share issuance	18	256	361	306	256	361	306
Increase (decrease) in bills payable and other borrowed funds	16	(56,908)	1,110	(16,064)	(57,798)	13,819	(24,351)
Payments for principal portion of lease liabilities		(1,900)	(1,458)	(1,471)	(1,478)	(1,108)	(1,151)
Net cash (used in) from financing activities		(66,676)	(8,111)	(29,396)	(67,144)	4,948	(37,361)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		35,367	31,518	(14,202)	(10,476)	32,461	(9,778)
CASH AND CASH EQUIVALENTS							
January 1	4,5	330,586	299,068	313,270	295,805	263,344	273,122
December 31		365,953	330,586	299,068	285,329	295,805	263,344
Non-cash financing and investing activities	11,16,18						
Cash flows from discontinued operations	12						

(The notes on pages 1 to 101 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

NOTES TO FINANCIAL STATEMENTS

**AS AT DECEMBER 31, 2021 and 2020 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2021**

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 was registered with the Securities and Exchange Commission (SEC) on January 4, 1943. The Parent Bank’s license was extended for another 50 years on January 4, 1993.

In 2019, the Parent Bank’s office address, which also serves as its principal place of business, was transferred to Ayala North Exchange, Ayala Avenue corner Salcedo Street, Legaspi Village, Makati City. Prior to 2019, BPI’s registered office address and principal place of business were both located at BPI Building, Ayala Avenue corner Paseo de Roxas, Makati City.

BPI and its subsidiaries (collectively referred to as the “BPI Group”) offer a whole breadth of financial services that include corporate banking, consumer banking, investment banking, asset management, corporate finance, securities distribution, and insurance services. At December 31, 2021, the BPI Group has 18,619 employees (2020 - 19,952 employees) and operates 1,176 branches (2020 - 1,173 branches) and 2,457 automated teller machines (ATMs) and cash accept machines (CAMs) (2020 - 2,707) to support its delivery of services. The BPI Group also serves its customers through alternative electronic banking channels such as telephone, mobile phone and the internet.

The Parent Bank is considered a public company under Rule 3.1 of Implementing Rules and Regulations of the Securities Regulation Code, which, among others, defines a public company as any corporation with a class of equity securities listed on an exchange, or with assets of at least P50 million and having 200 or more shareholders, each of which holds at least 100 shares of its equity securities.

On January 22, 2021, BPI announced that its Board of Directors (BOD) has approved on January 21, 2021, the plan to merge with BPI Family Savings Bank, Inc. (“BFB”), with the Parent Bank as the surviving entity. Subsequently, the BOD and shareholder of BFB approved the proposed merger at their respective meetings held on February 24, 2021 and April 22, 2021, respectively (Note 30.1).

Coronavirus pandemic

The BPI Group has successfully adapted to the challenges posed by the coronavirus disease (COVID-19) to its business model, including compliance with the country’s evolving regulatory impositions and mobility restrictions.

Reinforcing the BPI Group’s operational resilience, management has put in motion business continuity plans and a pandemic response plan and protocol for the entire organization. These include, but are not limited to, changes in the workforce arrangements and set-up of corporate offices, allowing for rotational schedules, split operations, and alternative work sites, all duly supported by the use of mobility tools and virtual communications. The BPI Group’s accelerated shift to digitalization has also ensured continuous client service through its various distribution platforms with maintained back-office efficiency during the nationwide implementation of community quarantines. Along with this new operating environment, new threats and vulnerabilities identified have been mitigated by both technical and organizational process controls. As such, while cybersecurity risks are theoretically heightened by remote access, a robust risk management process enables the Bank to effectively manage these changes.

The Bank has seen an increase in the level of non-performing loans since December 2019. Notwithstanding the impact of COVID-19 on businesses, e.g. temporary/permanent closure of certain businesses, suspended operations, limited travel and exchange of goods, the Bank’s asset quality remained better than initially expected and more favorable than industry averages. To mitigate risks arising from the pandemic, the Bank has taken a pro-active stance by constantly monitoring vulnerable industries and sectors that have been affected by COVID-19, identifying new opportunities in other industries and sectors, and having regular conversations with its clients. Asset quality is constantly monitored and the Bank continues to uphold its stringent credit process while also enhancing aspects of its underwriting, monitoring, and collections, in consideration of the changes in regulatory, economic, and customer behaviors post-crisis. The Bank’s robust capital and liquidity levels also serve as sufficient buffers for any adverse scenario during the ongoing pandemic.

Approval and authorization for issuance of financial statements

These financial statements have been approved and authorized for issuance by the BOD on February 22, 2022.

The consolidated financial statements comprise the financial statements of the Parent Bank and the following subsidiaries:

Subsidiaries	Country of incorporation	Principal activities	% of ownership	
			2021	2020
BPI Family Savings Bank, Inc.	Philippines	Banking	100	100
BPI Capital Corporation	Philippines	Investment house	100	100
BPI Direct Banko, Inc., A Savings Bank	Philippines	Banking	100	100
BPI Asset Management and Trust Corporation	Philippines	Asset management	100	100
BPI International Finance Limited	Hong Kong	Financing	100	100
BPI Europe Plc.	England and Wales	Banking (deposit)	100	100
BPI Securities Corp.	Philippines	Securities dealer	100	100
BPI Payments Holdings Inc.	Philippines	Financing	100	100
Filinvest Algo Financial Corp.	Philippines	Financing	100	100
BPI Investment Management, Inc.	Philippines	Investment management	100	100
Santiago Land Development Corporation	Philippines	Land holding	100	100
BPI Operations Management Corp.	Philippines	Operations management	-	100
BPI Computer Systems Corp.	Philippines	Business systems service	100	100
BPI Forex Corp.	Philippines	Foreign exchange	100	100
BPI Remittance Centre (HK) Ltd.	Hong Kong	Remittance	100	100
First Far - East Development Corporation	Philippines	Real estate	100	100
FEB Stock Brokers, Inc.	Philippines	Securities dealer	100	100
FEB Speed International	Philippines	Remittance	100	100
Ayala Plans, Inc.	Philippines	Pre-need	98.93	98.93
FGU Insurance Corporation	Philippines	Non-life insurance	94.62	94.62
BPI/MS Insurance Corporation	Philippines	Non-life insurance	50.85	50.85

Note 2 - Assets and Liabilities Attributable to Insurance Operations

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

	Note	2021	2020
(In Millions of Pesos)			
Assets			
Cash and cash equivalents	4	412	321
Insurance balances receivable, net		4,797	5,512
Investment securities			
Financial assets at fair value through profit or loss		2,306	5,300
Financial assets at fair value through other comprehensive income		6,982	4,835
Financial assets at amortized cost		269	224
Investment in associates		167	169
Accounts receivable and other assets, net		2,423	2,203
Land, building and equipment		207	162
		17,563	18,726
(In Millions of Pesos)			
Liabilities			
Reserves and other balances		11,307	12,565
Accounts payable, accrued expenses and other payables		1,935	1,782
		13,242	14,347

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

	2021	2020	2019
	(In Millions of Pesos)		
Premiums earned and related income	3,071	3,607	3,841
Investment and other income	1,504	1,026	712
	4,575	4,633	4,553
Benefits, claims and maturities	1,502	1,720	1,942
Decrease in actuarial reserve liabilities	(486)	(315)	(412)
Commissions	856	879	938
Management and general expenses	817	822	838
Other expenses	32	21	24
	2,721	3,127	3,330
Income before income tax and minority interest	1,854	1,506	1,223

Note 3 - Business Segments

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

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

The BPI Group's main operating business segments follow:

- Consumer banking - this segment serves the individual and retail markets. Services cover deposit taking and servicing, consumer lending such as home mortgages, auto loans and credit card finance as well as the remittance business. The segment also includes the entire transaction processing and service delivery infrastructure consisting of network of branches and ATMs as well as phone and internet-based banking platforms.
- Corporate banking - this segment caters both high-end corporations and middle market clients. Services offered include deposit taking and servicing, loan facilities, trade and cash management for corporate and institutional customers.
- Investment banking - this segment includes the various business groups operating in the investment markets and dealing in activities other than lending and deposit taking. These services cover corporate finance, securities distribution, asset management, trust and fiduciary services as well as proprietary trading and investment activities.

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

The BPI Group and the Parent Bank mainly derive revenue within the Philippines; accordingly, no geographical segment is presented.

The segment report forms part of management's assessment of the performance of the segment, among other performance indicators.

There were no changes in the reportable segments during the year. Transactions between the business segments are carried out at arm's length. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income.

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

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

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

Following the loss of control of the Parent Bank over BPI CTL BPI Century Tokyo Lease and Finance Corporation (BPI CTL) effective December 23, 2020 (Note 12), the BPI Group's segment reporting was updated to exclude the contribution of BPI CTL. The details of the BPI Group's reportable segments as at and for the years ended December 31 follows:

	2021			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(In Millions of Pesos)			
Net interest income	36,478	27,934	8,988	73,400
Provision for credit and impairment losses	3,157	10,118	(172)	13,103
Net interest income after provision for credit and impairment losses	33,321	17,816	9,160	60,297
Fees, commissions and other income, net	15,846	2,703	7,333	25,882
Total income	49,167	20,519	16,493	86,179
Compensation and fringe benefits	13,911	2,280	1,053	17,244
Occupancy and equipment-related expenses	5,988	112	472	6,572
Other operating expenses	20,075	3,295	1,566	24,936
Total other expenses	39,974	5,687	3,091	48,752
Operating profit	9,193	14,832	13,402	37,427
Income tax expense				9,427
Net income				24,110
Share in net income of associates				1,086
Total assets	495,878	1,205,841	679,536	2,381,255
Total liabilities	1,334,077	667,821	101,686	2,103,584
	2020			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Net interest income	43,564	26,112	5,909	75,585
Provision for credit and impairment losses	13,325	14,491	183	27,999
Net interest income after provision for credit and impairment losses	30,239	11,621	5,726	47,586
Fees, commissions and other income, net	12,659	2,365	13,166	28,190
Total income	42,898	13,986	18,892	75,776
Compensation and fringe benefits	14,512	2,513	1,037	18,062
Occupancy and equipment-related expenses	9,064	545	330	9,939
Other operating expenses	16,975	3,374	1,755	22,104
Total other expenses	40,551	6,432	3,122	50,105
Operating profit	2,347	7,554	15,770	25,671
Income tax expense				3,906
Net income from				
Continuing operations				21,863
Discontinued operations				(211)
Share in net income of associates				487
Total assets	478,439	1,129,281	578,047	2,185,767
Total liabilities	1,251,744	511,995	162,255	1,925,994

	2019			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(In Millions of Pesos)			
Net interest income	41,494	16,791	11,860	70,145
Provision for credit and impairment losses	3,489	2,068	5	5,562
Net interest income after provision for credit and impairment losses	38,005	14,723	11,855	64,583
Fees, commissions and other income, net	14,314	2,199	8,329	24,842
Total income	52,319	16,922	20,184	89,425
Compensation and fringe benefits	14,373	2,479	1,108	17,960
Occupancy and equipment-related expenses	10,147	681	314	11,142
Other operating expenses	15,057	3,066	1,721	19,844
Total other expenses	39,577	6,226	3,143	48,946
Operating profit	12,742	10,696	17,041	40,479
Income tax expense				9,355
Net income from				
Continuing operations				29,001
Discontinued operations				82
Share in net income of associates				372
Total assets	539,093	1,208,553	427,571	2,175,217
Total liabilities	1,211,212	552,549	145,398	1,909,159

Reconciliation of segment results to consolidated results of operations:

	2021		Total per consolidated financial statements
	Total per management reporting	Consolidation adjustments/ Others	
	(In Millions of Pesos)		
Net interest income	73,400	(3,817)	69,583
Provision for credit and impairment losses	13,103	32	13,135
Net interest income after provision for credit and impairment losses	60,297	(3,849)	56,448
Fees, commissions and other income, net	25,882	1,940	27,822
Total income	86,179	(1,909)	84,270
Compensation and fringe benefits	17,244	1,284	18,528
Occupancy and equipment-related expenses	6,572	9,438	16,010
Other operating expenses	24,936	(8,741)	16,195
Total other expenses	48,752	1,981	50,733
Operating profit	37,427	(3,890)	33,537
Income tax expense	9,427		9,427
Net income	24,110		24,110
Share in net income of associates	1,086		1,086
Total assets	2,381,255	40,660	2,421,915
Total liabilities	2,103,584	23,175	2,126,759

	2020		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	75,585	(3,321)	72,264
Provision for credit and impairment losses	27,999	1	28,000
Net interest income after provision for credit and impairment losses	47,586	(3,322)	44,264
Fees, commissions and other income, net	28,190	1,469	29,659
Total income	75,776	(1,853)	73,923
Compensation and fringe benefits	18,062	(57)	18,005
Occupancy and equipment-related expenses	9,939	4,667	14,606
Other operating expenses	22,104	(6,561)	15,543
Total other expenses	50,105	(1,951)	48,154
Operating profit	25,671	98	25,769
Income tax expense	3,906		3,906
Net income from			
Continuing operations	21,863		21,863
Discontinued operations	(211)		(211)
Share in net income of associates	487		487
Total assets	2,185,767	47,676	2,233,443
Total liabilities	1,925,994	25,492	1,951,486
	2019		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	70,145	(4,570)	65,575
Provision for credit and impairment losses	5,562	-	5,562
Net interest income after provision for credit and impairment losses	64,583	(4,570)	60,013
Fees, commissions and other income, net	24,842	1,845	26,687
Total income	89,425	(2,725)	86,700
Compensation and fringe benefits	17,960	(591)	17,369
Occupancy and equipment-related expenses	11,142	3,594	14,736
Other operating expenses	19,844	(3,605)	16,239
Total other expenses	48,946	(602)	48,344
Operating profit	40,479	(2,123)	38,356
Income tax expense	9,355		9,355
Net income from			
Continuing operations	29,001		29,001
Discontinued operations	82		82
Share in net income of associates	372		372
Total assets	2,175,217	29,813	2,205,030
Total liabilities	1,909,159	22,837	1,931,996

*Consolidation adjustments/Others” pertain to amounts of insurance operations and support units and inter-segment elimination in accordance with the BPI Group’s internal reporting.

Note 4 - Cash and Cash Equivalents

The account at December 31 consists of:

	Notes	Consolidated		Parent	
		2021	2020	2021	2020
(In Millions of Pesos)					
Cash and other cash items		35,143	37,176	33,868	35,912
Due from Bangko Sentral ng Pilipinas (BSP)		268,827	223,989	197,435	197,974
Due from other banks		34,572	40,155	27,734	36,605
Interbank loans receivable and securities purchased under agreements to resell (SPAR)	5	26,999	28,945	26,292	25,314
Cash and cash equivalents attributable to insurance operations	2	412	321	-	-
		365,953	330,586	285,329	295,805

Note 5 - Interbank Loans Receivable and SPAR

The account at December 31 consists of transactions with:

	Consolidated		Parent		
	2021	2020	2021	2020	
(In Millions of Pesos)					
BSP	16,163	19,450	15,800	15,819	
Other banks	14,733	10,836	14,267	10,839	
	30,896	30,286	30,067	26,658	
Accrued interest receivable	2	6	2	5	
	30,898	30,292	30,069	26,663	
Allowance for impairment	(46)	(41)	(46)	(41)	
	30,852	30,251	30,023	26,622	

As at December 31, 2021, Interbank loans receivable and SPAR maturing within 90 days from the date of acquisition amounting to P26,999 million (2020 - P28,945 million) for the BPI Group and P26,292 million (2020 - P25,314 million) for the Parent Bank are classified as cash equivalents in the statements of cash flows (Note 4).

Government bonds are pledged by the BSP as collateral under reverse repurchase agreements. The aggregate face value of securities pledged approximates the total balance of outstanding placements as at reporting date.

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

	Consolidated		Parent	
	2021	2020	2021	2020
Peso-denominated	2.00 - 8.28	2.00 - 8.28	2.00 - 8.28	2.00 - 8.28
US dollar-denominated	0.02 - 0.47	0.07 - 0.30	0.02 - 0.47	0.07 - 0.30

Note 6 - Financial Assets at Fair Value through Profit or Loss (FVTPL)

The account at December 31 consists of:

	Note	Consolidated		Parent	
		2021	2020	2021	2020
(In Millions of Pesos)					
Debt securities					
Government securities		14,343	29,942	11,872	28,784
Commercial papers of private companies		3,250	2,410	183	365
Listed equity securities		188	70	-	-
Derivative financial assets	7	3,553	4,788	3,520	4,716
		21,334	37,210	15,575	33,865

All financial assets at FVTPL held by the BPI Group and the Parent Bank are classified as current.

Note 7 - Derivative Financial Instruments

Derivatives held by the BPI Group consist mainly 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 at maturity.
- Foreign exchange swaps refer to spot purchase or sale of one currency against another with an offsetting 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.
- Cross currency swaps refer to an exchange of notional amounts on two currencies at a given exchange rate where the parties on the transaction agree to pay a stated interest rate on the received notional amount and accept a stated interest rate on the delivered notional amount, payable and receivable or net settled (non-deliverable swaps) periodically over the term of the transaction.

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 fair values of derivative financial instruments as at December 31 are set out below:

Consolidated

	Assets		Liabilities	
	2021	2020	2021	2020
	(In Millions of Pesos)			
<i>Held for trading</i>				
Foreign exchange derivatives				
Currency swaps	232	851	310	1,699
Currency forwards	1,488	560	1,584	806
Interest rate swaps	1,821	3,088	1,738	3,152
Warrants	2	1	-	-
Equity option	10	10	-	-
<i>Held for hedging</i>				
Cross currency interest rate swap	-	278	-	-
	3,553	4,788	3,632	5,657

Parent

	Assets		Liabilities	
	2021	2020	2021	2020
	(In Millions of Pesos)			
<i>Held for trading</i>				
Foreign exchange derivatives				
Currency swaps	232	851	310	1,699
Currency forwards	1,465	498	1,497	806
Interest rate swaps	1,821	3,088	1,738	3,152
Warrants	2	1	-	-
<i>Held for hedging</i>				
Cross currency interest rate swap	-	278	-	-
	3,520	4,716	3,545	5,657

The Parent Bank was granted a Type 1 Derivative License by the BSP allowing it to issue options and hedged investments, among others.

Cash flow hedge of foreign currency-denominated bond

Consistent with its established risk management framework and asset liability management strategies, the Parent Bank decided to hedge the foreign currency exposure arising from the CHF-denominated debt (hedged item) issued in 2019 (Note 16).

The Parent Bank aims to minimize or reduce the volatility in the overall portfolio brought about by the movement of CHF against the US Dollar through a hedging instrument - cross currency interest rate swap (CCIRS). Under the terms of the CCIRS, the Parent Bank agrees to receive CHF in exchange for US Dollar at settlement date which coincides with the maturity date of the hedged item. The volatility arising from movement of US Dollar against the functional currency (Philippine Peso), however, is managed in conjunction with the Parent Bank's overall foreign currency risk management. The hedge ratio of 1:1 is observed so as not to create an imbalance that would create hedge ineffectiveness.

On September 24, 2021, the Parent Bank's CCIRS hedging instrument matured resulting in a net gain of P290 million attributable to the net cash inflow from receive leg of CHF100 million or P5,493 million and pay leg of USD 102 million or P5,203 million. The hedged item matured on the same date resulting in a cash settlement of CHF100 million or P5,493 million.

Critical accounting estimate - Determination of fair value of derivatives and other financial instruments

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 BOD 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, however, to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of financial instruments that are not quoted in active markets.

Note 8 - Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)

Details of the account at December 31 are as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
Debt securities				
Government securities	122,966	100,063	105,369	91,971
Commercial papers of private companies	7,869	26,092	7,869	26,006
	130,835	126,155	113,238	117,977
Accrued interest receivable	555	696	475	646
	131,390	126,851	113,713	118,623
Equity securities				
Listed	1,982	1,784	1,517	1,369
Unlisted	1,369	1,551	311	308
	3,351	3,335	1,828	1,677
	134,741	130,186	115,541	120,300

The BPI Group has designated a small portfolio of equity securities from listed and unlisted private corporations as financial assets at FVOCI. The BPI Group adopted this presentation as the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

Debt securities classified as financial assets at FVOCI are classified as follows

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
Current (within 12 months)	34,060	42,777	26,921	41,472
Non-current (over 12 months)	97,330	84,074	86,792	77,151
	131,390	126,851	113,713	118,623

The range of average effective interest rates (%) of financial assets at FVOCI for the years ended December 31 follows:

	Consolidated		Parent	
	2021	2020	2021	2020
Peso-denominated	1.58 - 8.57	1.70 - 7.18	1.58 - 7.18	1.70 - 7.18
Foreign currency-denominated	0.01 - 4.41	0.06 - 5.73	0.01 - 4.41	0.06 - 5.73

Interest income from debt instruments recognized in the statement of income for the year ended December 31, 2021 amounts to P2,473 million (2020 - P3,398 million; 2019 - P1,937 million) and P2,306 million (2020 - P3,124 million; 2019 - P1,871 million) for the BPI Group and Parent Bank, respectively.

Dividend income from equity instruments recognized in the statement of income under other operating income for the year ended December 31, 2021 amounts to P30 million (2020 - P57 million; 2019 - P76 million) and P16 million (2020 - P48 million; 2019 - P48 million) for the BPI Group and Parent Bank, respectively.

Note 9 - Investment Securities at Amortized Cost, net

Details of the account at December 31 are as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
		(In Millions of Pesos)		
Government securities	293,751	166,907	292,573	150,209
Commercial papers of private companies	42,039	75,411	37,809	64,522
	335,790	242,318	330,382	214,731
Accrued interest receivable	2,888	2,348	2,817	2,092
	338,678	244,666	333,199	216,823
Allowance for impairment	(6)	(13)	(6)	(13)
	338,672	244,653	333,193	216,810

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

	Consolidated		Parent	
	2021	2020	2021	2020
Peso-denominated	1.61 - 8.13	1.67 - 4.20	1.61 - 8.13	1.67 - 4.20
Foreign currency-denominated	0.13 - 4.88	2.45 - 2.61	0.16 - 4.88	2.45 - 2.61

In 2021, the BPI Group and the Parent Bank recognized a net gain on derecognition of P1,513 million (2020 - P4,647 million) and P1,166 million (2020 - P4,078 million), due mainly to its disposal of a portfolio of debt securities in response to an impending change in tax regulations and as part of disposal of the entire portfolio of investments securities at amortized cost of a significant subsidiary. Consistent with the allowed sales of investments under the hold-to-collect business model following the requirements of PFRS 9, Financial Instruments, and BSP Circular 708, the circumstances resulting in the disposals are deemed isolated and non-recurring events that are beyond the BPI Group's control and could not have been reasonably anticipated at the time that the business model has been established. In 2019, the BPI Group and the Parent Bank sold an insignificant amount of debt securities, which resulted in a gain of P128 million and P104 million, respectively.

Interest income from these investment securities recognized in the statement of income for the year ended December 31, 2021 amounts to P7,657 million (2020 - P8,398 million; 2019 - P10,318 million) and P7,347 million (2020 - P7,386 million; 2019 - P9,675 million) for the BPI Group and the Parent Bank, respectively.

Investment securities at amortized cost are expected to be realized as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
		(In Millions of Pesos)		
Current (within 12 months)	29,061	46,389	28,384	33,404
Non-current (over 12 months)	309,611	198,264	304,809	183,406
	338,672	244,653	333,193	216,810

As at December 31, 2021, the Parent Bank has P4,421 million (2020 - P1,755 million) outstanding securities overlying securitization structures (SOSS) measured at amortized cost. The securities are held for collection of contractual cash flows until maturity and those cash flows represent solely payments of principal and interest.

Critical accounting judgment - Classification of investment securities at amortized cost

The BPI Group classifies its financial assets at initial recognition as to whether it will be subsequently measured at FVOCI, at amortized cost, or at FVTPL. The BPI Group determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets. The BPI Group determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest (the “SPPI”). If the instrument fails the SPPI test, it will be measured at FVTPL.

Note 10 - Loans and Advances, net

Details of this account at December 31 are as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
Corporate loans		(In Millions of Pesos)		
Large corporate customers	1,169,551	1,112,069	1,151,417	1,092,514
Small and medium enterprise	66,594	66,869	48,678	49,699
Retail loans				
Credit cards	76,048	68,057	74,125	65,686
Real estate mortgages	153,303	140,552	10	10
Auto loans	51,182	51,045	3	-
Others	11,952	11,616	283	616
	1,528,630	1,450,208	1,274,516	1,208,525
Accrued interest receivable	7,819	8,976	5,447	6,180
Unearned discount/income	(6,158)	(5,013)	(6,047)	(4,838)
	1,530,291	1,454,171	1,273,916	1,209,867
Allowance for impairment	(53,764)	(46,758)	(40,864)	(34,796)
	1,476,527	1,407,413	1,233,052	1,175,071

As at December 31, 2021 and 2020, the BPI Group has no outstanding loans and advances used as security for bills payable (Note 16).

Loans and advances include amounts due from related parties (Note 25).

Loans and advances are expected to be realized as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
		(In Millions of Pesos)		
Current (within 12 months)	520,838	520,304	488,979	489,943
Non-current (over 12 months)	1,009,453	933,867	784,937	719,924
	1,530,291	1,454,171	1,273,916	1,209,867

Finance lease operations (the BPI Group as the lessor)

In December 2020, certain receivables from finance lease arrangements of BPI Century Tokyo Lease and Finance Corporation (BPI CTL) amounting to P5,669 million were assigned to BPI and BFB. These loan accounts are subsequently grouped as part of “Corporate loans” and “Auto loans” categories for BPI and BFB, respectively. Guaranteed deposits related to the assigned receivables were not transferred to BPI and BFB and have been retained by BPI CTL.

Until December 22, 2020, the BPI Group, through BPI CTL is engaged in the leasing out of transportation equipment under various finance lease arrangements which typically run for a non-cancellable period of five years. The lease contracts generally include an option for the lessee to purchase the leased asset after the lease period at a price that approximates to about 5% to 40% of the fair value of the asset at the inception of the lease. Likewise, the lease contract requires the lessee to put up a guarantee deposit equivalent to the residual value of the leased asset at the end of lease term. 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.

Effective December 23, 2020, the majority ownership in BPI CTL was transferred to Tokyo Century Corporation (TCC) (Note 12). The loss of control of the Parent Bank over BPI CTL resulted in the deconsolidation of the finance lease operations in the books of the BPI Group as at December 31, 2020.

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

	Consolidated		Parent	
	2021	2020	2021	2020
Commercial loans				
Peso-denominated loans	4.33 - 4.59	4.53 - 5.20	4.30 - 4.56	4.75 - 5.25
Foreign currency-denominated loans	2.50 - 2.97	2.32 - 3.98	2.50 - 2.97	2.41 - 3.98
Real estate mortgages	5.65 - 6.20	6.50 - 8.05	-	-
Auto loans	8.86 - 9.63	8.97 - 9.87	-	-

Details of the loans and advances portfolio at December 31 as to collateral (amounts net of unearned discounts and exclusive of accrued interest receivable) are as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	268,427	257,311	138,333	132,600
Chattel mortgage	51,878	51,821	6	8
Others	122,943	203,629	120,803	201,013
	443,248	512,761	259,142	333,621
Unsecured loans	1,079,224	932,434	1,009,327	870,066
	1,522,472	1,445,195	1,268,469	1,203,687

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

Note 11 - Bank Premises, Furniture, Fixtures and Equipment, net

The details of and movements in the account are summarized below:

Consolidated

	2021				Total
	Notes	Land	Buildings and leasehold improvements	Furniture and equipment	
	(In Millions of Pesos)				
Cost					
January 1, 2021		3,013	24,305	17,038	44,356
Additions		47	2,306	1,504	3,857
Disposals		(13)	(286)	(1,601)	(1,900)
Transfers		1	(24)	(2)	(25)
Other changes	20	-	(109)	2	(107)
December 31, 2021		3,048	26,192	16,941	46,181
Accumulated depreciation					
January 1, 2020		-	11,084	14,440	25,524
Depreciation and amortization		-	2,946	1,313	4,259
Disposals		-	(187)	(924)	(1,111)
Transfers		-	-	(2)	(2)
Other changes	20	-	(16)	2	(14)
December 31, 2021		-	13,827	14,829	28,656
Net book value, December 31, 2021		3,048	12,365	2,112	17,525

	2020					Total
	Notes	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	
(In Millions of Pesos)						
Cost						
January 1, 2020		3,019	21,956	17,023	6,131	48,129
Additions		-	857	1,733	1,072	3,662
Disposals		(6)	(4)	(1,684)	(842)	(2,536)
Transfers		-	2	(9)	(13)	(20)
Effect of deconsolidation	12	-	(2)	(25)	(6,348)	(6,375)
Other changes	20	-	1,496	-	-	1,496
December 31, 2020		3,013	24,305	17,038	-	44,356
Accumulated depreciation						
January 1, 2020		-	8,179	14,357	1,845	24,381
Depreciation and amortization		-	847	1,523	1,326	3,696
Disposals		-	(2)	(1,424)	(564)	(1,990)
Transfers		-	-	(5)	(7)	(12)
Effect of deconsolidation	12	-	(8)	(11)	(2,600)	(2,619)
Other changes	20	-	2,068	-	-	2,068
December 31, 2020		-	11,084	14,440	-	25,524
Net book value, December 31, 2020		3,013	13,221	2,598	-	18,832

Parent

	2021					Total
	Notes	Land	Buildings and leasehold improvements	Furniture and equipment		
(In Millions of Pesos)						
Cost						
January 1, 2021			2,668	20,783	15,160	38,611
Additions			46	1,978	1,296	3,320
Disposals			(13)	(278)	(1,542)	(1,833)
Transfers			2	(20)	-	(18)
Other changes	20		-	(2)	-	(2)
December 31, 2021			2,703	22,461	14,914	40,078
Accumulated depreciation						
January 1, 2021			-	9,563	12,917	22,480
Depreciation and amortization			-	2,326	1,083	3,409
Disposals			-	(181)	(873)	(1,054)
December 31, 2021			-	11,708	13,127	24,835
Net book value, December 31, 2021			2,703	10,753	1,787	15,243

	2020					Total
	Notes	Land	Buildings and leasehold improvements	Furniture and equipment		
(In Millions of Pesos)						
Cost						
January 1, 2020			2,668	18,956	15,177	36,801
Additions			-	750	1,547	2,297
Disposals			-	-	(1,564)	(1,564)
Other changes	20		-	1,077	-	1,077
December 31, 2020			2,668	20,783	15,160	38,611
Accumulated depreciation						
January 1, 2020			-	7,232	12,974	20,206
Depreciation and amortization			-	640	1,286	1,926
Disposals			-	-	(1,343)	(1,343)
Other changes	20		-	1,691	-	1,691
December 31, 2020			-	9,563	12,917	22,480
Net book value, December 31, 2020			2,668	11,220	2,243	16,131

As at December 31, 2021, the BPI Group has recognized construction-in-progress amounting to P475.1 million in relation to the redevelopment of its main office. This is recorded as part of “Buildings and leasehold improvements” category in the table above.

Other changes pertain to additions and remeasurement of right-of-use assets due to renewal of lease agreements, extension of lease terms and deferral of escalation clause on existing lease contracts. The impact of remeasurement is presented in Note 20.

Depreciation and amortization charges are included in “Occupancy and equipment-related expenses” category in the statements of income.

In 2021, the Parent Bank realized a gain of P78 million (2020 - P77 million) (Note 19) from the disposal of certain bank premises, furniture, fixtures and equipment.

Critical accounting estimate - Useful lives of bank premises, furniture, fixtures and equipment

The BPI Group determines the estimated useful lives of its bank premises, furniture, fixtures and equipment based on the period over which the assets are expected to be available for use. The BPI Group annually reviews the estimated useful lives of bank premises, furniture, fixtures and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the carrying values of bank premises, furniture, fixtures and equipment.

Note 12 - Investments in Subsidiaries and Associates, net

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

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
Carrying value (net of impairment)				
Investments at equity method	7,165	7,510	-	-
Investments at cost method	-	-	15,556	11,039
	7,165	7,510	15,556	11,039

Investments in associates accounted for using the equity method in the consolidated statement of condition are as follows:

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest		Acquisition cost	
		2021	2020	2021	2020
		(in %)		(In Millions of Pesos)	
Global Payments Asia-Pacific Philippines, Incorporated	Philippines	49.00	49.00	1,342	1,342
AF Payments, Inc. (AFPI)	Philippines	20.00	20.00	940	880
BPI AIA Life Assurance Corporation (formerly BPI- Philamlife Assurance Corporation)	Philippines	47.96	47.96	389	389
BPI CTL	Philippines	49.00	49.00	316	316
Beacon Property Ventures, Inc.	Philippines	20.00	20.00	72	72
CityTrust Realty Corporation	Philippines	40.00	40.00	2	2
				3,061	3,001

The movements in investments in associates accounted for using the equity method in the consolidated financial statements are summarized as follows:

	2021	2020
	(In Millions of Pesos)	
Acquisition cost		
At January 1	3,001	2,829
Additions during the year	60	60
Reclassification	-	(204)
Effect of deconsolidation	-	316
At December 31	3,061	3,001
Accumulated equity in net income		
At January 1	4,201	3,007
Share in net income for the year	1,086	487
Dividends received	(1,211)	(343)
Reclassification	-	(302)
Effect of deconsolidation	-	1,352
At December 31	4,076	4,201
Accumulated share in other comprehensive income (loss)		
At January 1	448	1,050
Share in other comprehensive income for the year	(280)	(589)
Effect of deconsolidation	-	(13)
At December 31	168	448
Allowance for impairment	(140)	(140)
	7,165	7,510

No associate is deemed individually significant for financial reporting purposes. Accordingly, the relevant unaudited financial information of associates as at and for the years ended December 31 are aggregated as follows:

	2021	2020
	(In Millions of Pesos)	
Total assets	129,058	128,719
Total liabilities	114,717	113,630
Total revenues	24,044	19,042
Total net income	2,629	1,484

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

	Acquisition cost		Allowance for impairment		Carrying value	
	2021	2020	2021	2020	2021	2020
	(In Millions of Pesos)					
Subsidiaries						
BPI Europe Plc.(BPI Europe)	7,181	3,160	-	-	7,180	3,160
BPI Direct Banko, Inc., A Savings Bank (BanKo)	2,009	1,509	-	-	1,392	1,509
BPI Asset Management and Trust Corporation	1,502	1,502	-	-	1,502	1,502
Ayala Plans, Inc.	864	864	-	-	864	864
BPI Payments Holdings Inc. (BPHI)	693	633	(672)	(612)	21	21
BPI Capital Corporation	623	623	-	-	623	623
FGU Insurance Corporation	303	303	-	-	303	303
BPI Forex Corp.	195	195	-	-	195	195
BPI Family Savings Bank, Inc.	150	150	-	-	150	150
BPI Remittance Centre (HK) Ltd. (BERC HK)	132	132	-	-	132	132
First Far-East Development Corporation	91	91	-	-	91	91
FEB Stock Brokers, Inc.	25	25	-	-	25	25
BPI Computer Systems Corp.	23	23	-	-	23	23
Others	317	321	-	-	935	321
Associates	2,120	2,120	-	-	2,120	2,120
	16,228	11,651	(672)	(612)	15,556	11,039

In 2021, the Parent Bank made additional capital infusions to BPI Europe, BanKo and BPHI amounting to P4,021 million (2020 - P1,250 million), P500 million (2020 - P500 million) and P60 million (2020 - P60 million), respectively.

Likewise, the Parent Bank in 2021, recognized an impairment loss of P60 million (2020 - P313 million) on its investment in BPHI due to financial losses incurred by BPHI's associate, AFPI, as disclosed above. In computing for its recoverable amount, the Parent Bank used a discount rate of 13.08% (2020 - 11.63%) in assessing its value in use, which amounts to P21 million in 2021 (2020 - P21 million).

No non-controlling interest arising from investments in subsidiaries is deemed material to the BPI Group.

Critical accounting judgment and estimate - Impairment of investments in subsidiaries and associates

The BPI Group assesses impairment on non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the BPI Group considers important which could trigger an impairment review include the following:

- significant decline in market value;
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and,
- significant negative industry or economic trends.

The BPI Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. Management has not identified any indicators of impairment as at December 31, 2021 and 2020 in its subsidiaries apart from BPHI.

For the 2021 and 2020 reporting periods, the recoverable amount of the subsidiary was determined based on the higher between fair value less cost to sell and value-in-use (VIU) calculations which require the use of assumptions. The VIU calculations use cash flow projections based on financial budgets approved by management.

The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the recoverable amount of the subsidiary.

Discontinued operations

On November 18, 2020, the Board of Directors approved the transfer of the Parent Bank's majority ownership via the sale of its 2% share in BPI CTL effective December 22, 2020, to TCC, resulting in a 49% and 51% ownership structure between BPI and TCC. The consideration paid by TCC is equivalent to the price-to-book value multiple of 1.06x of BPI CTL's book value as at December 31, 2019.

Accordingly, the sale of shares resulting in a loss of control of the subsidiary was presented as discontinued operations. The financial performance and cash flow information presented below are for the period from January 1, 2020 to December 22, 2020 (2020 column), and for the year ended December 31, 2019.

	2020	2019
	(In Millions of Pesos)	
INTEREST INCOME		
On loans and advances	370	1,095
On investment securities	-	-
On deposits with BSP and other banks	1	1
	371	1,096
INTEREST EXPENSE		
On bills payable and other borrowed funds	271	726
NET INTEREST INCOME	100	370
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	418	260
NET INTEREST (EXPENSE) INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	(318)	110
OTHER INCOME		
Fees, commissions, and other operating income	949	1,867
Income (loss) from foreign exchange trading	28	(9)
	977	1,858
OTHER EXPENSES		
Compensation and fringe benefits	63	118
Occupancy and equipment-related expenses	727	1,543
Other operating expenses	115	228
	905	1,889
(LOSS) PROFIT BEFORE INCOME TAX	(246)	79
INCOME TAX EXPENSE		
Current	90	62
Deferred	(125)	(65)
	(35)	(3)
NET (LOSS) INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	(211)	82

	2020	2019
	(In Millions of Pesos)	
Net cash flows from operating activities	3,791	941
Net cash flows from investing activities	3,539	3
Net cash flows from financing activities	(7,326)	(884)
Net increase in cash flows from discontinued operations	4	60

The carrying amounts of assets and liabilities of BPI CTL as at the date of sale (December 23, 2020) are as follows:

	Amount
	(In Millions of Pesos)
Due from other banks	1,769
Investment securities at amortized cost, net	12
Loans and advances, net	2,610
Bank premises, furniture, fixtures and equipment, net	3,756
Other assets, net	3,747
Total assets	11,894
Bills payable and other borrowed funds	5,472
Accrued taxes, interest and other expenses	170
Deferred credits and other liabilities	3,231
Total liabilities	8,873
Net assets	3,021

The details of the sale of the 2% ownership in CTL are as follows:

	Consolidated	Parent
	(In Millions of Pesos)	
Cash consideration received	72	72
Carrying amount of net assets sold	(62)	(13)
Gain on sale	10	59

The resulting gain is recorded as part of miscellaneous income under other operating income (Note 19).

Note 13 - Deferred Income Taxes

Details of deferred income tax assets and liabilities at December 31 are as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
Deferred income tax assets				
Allowance for credit and impairment losses	14,222	15,067	10,579	10,675
Pension liability	1,794	2,558	1,525	2,368
Provisions	304	307	225	251
Others	(102)	155	23	144
Total deferred income tax assets	16,218	18,087	12,352	13,438
Deferred income tax liabilities				
Unrealized gain on property appraisal	(395)	(476)	(395)	(476)
Others	(4)	(86)	(4)	(124)
Total deferred income tax liabilities	(399)	(562)	(399)	(600)
Deferred income tax assets, net	15,819	17,525	11,953	12,838

Movements in net deferred income tax assets are summarized as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
At January 1	17,525	9,706	12,838	6,653
Amounts recognized in statement of income	(1,099)	6,845	(375)	5,144
Amounts recognized in other comprehensive income	(607)	974	(510)	1,041
At December 31	15,819	17,525	11,953	12,838

Details of deferred income tax items recognized in the statements of income are as follows:

	Consolidated			Parent		
	2021	2020	2019	2021	2020	2019
	(In Millions of Pesos)					
Allowance for impairment	(1,816)	(6,637)	(946)	(1,541)	(4,992)	(718)
Pension	(131)	(45)	18	(121)	(55)	9
NOLCO	(6)	17	83	-	-	-
Others	3,052	(180)	160	2,037	(97)	126
	1,099	(6,845)	(685)	375	(5,144)	(583)

The deferred income tax benefit recognized in the statement of income of the BPI Group as presented above includes the portion of BPI CTL for the year ended December 31, 2020 and 2019 amounting to P125 million and P65 million, respectively (Note 12).

Critical accounting judgment - Realization of deferred income tax assets

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 assets 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 14 - Other Assets, net

The account at December 31 consists of the following:

	Consolidated		Parent	
	2021	2020	2021	2020
		(In Millions of Pesos)		
Sundry debits	9,458	6,456	9,367	6,098
Accounts receivable	2,928	2,690	6,405	2,402
Intangible assets	1,989	2,530	1,770	2,178
Prepaid expenses	1,426	984	1,153	705
Rental deposits	762	762	647	650
Accrued trust and other fees	715	703	136	141
Creditable withholding tax	216	330	76	193
Investment properties	165	150	153	139
Miscellaneous assets	3,333	3,224	2,849	2,728
	20,992	17,829	22,556	15,234
Allowance for impairment	(1,099)	(983)	(908)	(822)
	19,893	16,846	21,648	14,412

Sundry debits are float items caused by timing differences in recording of transactions. These float items are normally cleared within seven days.

Accounts receivable includes non-loan related receivables from merchants and service providers, litigation related receivables and receivables from employees.

Intangible assets comprise computer software costs, contractual customer relationships and management contracts.

Residual value of equipment for lease pertains to refundable operating and finance lease deposits held under BPI CTL.

Miscellaneous assets include postage stamps, stationery and supplies.

The allowance for impairment pertains mainly to accounts receivable. The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
		(In Millions of Pesos)		
At January 1	983	515	822	310
Provision for impairment losses	269	684	214	614
Transfer/reallocation	13	-	21	(29)
Write-off	(166)	(216)	(149)	(73)
At December 31	1,099	983	908	822

Other assets are expected to be realized as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
		(In Millions of Pesos)		
Current (within 12 months)	18,758	15,079	20,624	12,907
Non-current (over 12 months)	2,234	2,750	1,932	2,327
	20,992	17,829	22,556	15,234

Note 15 - Deposit Liabilities

The account at December 31 consists of:

	Consolidated		Parent	
	2021	2020	2021	2020
		(In Millions of Pesos)		
Demand	369,079	314,853	356,398	304,140
Savings	1,137,124	1,051,069	1,012,722	925,409
Time	448,944	350,255	306,665	240,661
	1,955,147	1,716,177	1,675,785	1,470,210

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

	Consolidated		Parent	
	2021	2020	2021	2020
Private firms and local banks - Peso-denominated	-	0.89 - 4.30	-	0.89 - 4.00
Foreign banks - Foreign currency-denominated	0.77 - 1.44	0.11 - 2.85	0.77 - 1.44	0.11 - 2.85

Other borrowed funds

This represents funds raised via the BPI Group's debt issuance programs as follows:

a) Peso Bond and Commercial Paper Program

In 2018, the Parent Bank established a Peso Bond and Commercial Paper Program in the aggregate amount of up to P50,000 million, out of which a total of P25,000 million notes were issued with a coupon of 6.797% per annum, payable quarterly which matured on March 6, 2020. On November 20, 2019, BPI's Board of Directors approved the issuance of peso-denominated bonds and commercial papers of up to P100 billion, in one or more tranches, under an updated Bank Bond Issuance Program with drawdowns as follows:

Description of instrument	Date of drawdown	Interest rate	Maturity	Face amount	Carrying amount	
					2021	2020
Fixed rate bonds, unconditional, unsecured and unsubordinated bonds	January 24, 2020	4.24%	January 24, 2022	15,328	15,328	15,251
Fixed rate bonds, unconditional, unsecured and unsubordinated bonds	March 27, 2020	4.05%	September 27, 2021	33,896	-	33,724
BPI CArE bonds, unconditional, unsecured and unsubordinated bonds	August 7, 2020	3.05%	May 7, 2022	21,500	21,463	21,391

Likewise, on October 31, 2019, the BOD of BFB, a wholly-owned subsidiary, approved the establishment of a Peso Bond Program in the aggregate amount of P35,000 million. In line with the said program, on December 16, 2019, BFB issued P9,600 million with a coupon of 4.30% per annum, payable quarterly to mature on June 16, 2022 and with a carrying amount of P9,584 million as at December 31, 2021 (2020 - P9,545 million).

The Parent Bank's fixed rate bonds with a coupon rate of 4.05% matured on September 27, 2021 resulting in a cash settlement of P33,896 million.

b) Medium-Term Note (MTN) Program

On June 21, 2018, the BOD of the Parent Bank approved the establishment of the MTN Program in the aggregate amount of up to US\$2,000 million with drawdowns as follows:

Description of instrument	Date of drawdown	Interest rate	Maturity	Face amount	Carrying amount	
					2021	2020
US\$ 600 million, 5-year senior unsecured Bonds	September 4, 2018	4.25%	September 4, 2023	32,000	30,519	28,695
US\$ 300 million, 5-year senior unsecured Green Bonds	September 10, 2019	2.50%	September 10, 2024	15,572	15,240	14,330
CHF 100 million, 2-year senior unsecured Green Bonds	September 24, 2019	-	September 24, 2021	5,250	-	5,415

The CHF-denominated bonds are designated as hedged items in a cash flow hedge initiated by the Parent Bank in 2019 (Note 7). These bonds matured on September 24, 2021, resulting in a cash settlement of CHF100 million or P5,493 million.

Interest expense for the years ended December 31 is summarized as follows:

	Consolidated			Parent		
	2021	2020	2019	2021	2020	2019
			(In Millions of Pesos)			
Bills payable	77	471	2,823	59	458	2,834
Other borrowed funds	4,789	4,587	3,215	4,337	4,137	3,197
	4,866	5,058	6,038	4,396	4,595	6,031

The movements in bills payable and other borrowed funds are summarized as follows:

	Note	Consolidated		Parent	
		2021	2020	2021	2020
			(In Millions of Pesos)		
At January 1		151,947	150,837	140,348	126,529
Additions		87,461	233,553	74,530	185,258
Maturities		(147,618)	(221,404)	(135,539)	(165,879)
Amortization of discount		462	(238)	424	(275)
Exchange differences		2,787	(5,329)	2,787	(5,285)
Effect of deconsolidation	12	-	(5,472)	-	-
At December 31		95,039	151,947	82,550	140,348

Bills payable and other borrowed funds are expected to be settled as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
				(In Millions of Pesos)
Current (within 12 months)	48,261	57,955	36,791	55,901
Non-current (over 12 months)	46,778	93,992	45,759	84,447
	95,039	151,947	82,550	140,348

Note 17 - Deferred Credits and Other Liabilities

The account at December 31 consists of the following:

	Note	Consolidated		Parent	
		2021	2020	2021	2020
			(In Millions of Pesos)		
Bills purchased - contra		9,989	12,802	9,989	12,801
Lease liabilities	20	7,326	7,811	6,248	6,559
Accounts payable		5,396	5,984	3,397	4,661
Other deferred credits		4,129	2,718	342	400
Outstanding acceptances		2,842	934	2,842	934
Due to the Treasurer of the Philippines		1,182	942	1,031	823
Withholding tax payable		632	604	519	438
Miscellaneous liabilities		11,906	14,062	9,394	10,487
		43,402	45,857	33,762	37,103

Bills purchased - contra represents liabilities arising from the outright purchases of checks due for clearing as a means of immediate financing offered by the BPI Group to its clients.

Accounts payable consists of unpaid balances arising from transfer tax payments, settlement fees and operating expenses.

Other deferred credits pertain to discount on purchased contract-to-sell receivables from developers. These are being amortized on a monthly basis over the life of the receivable using the effective interest rate method.

Miscellaneous liabilities include pension liability, allowance for credit losses for undrawn committed credit facilities and other employee-related payables.

The account is expected to be settled as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
Current (within 12 months)	32,810	32,332	24,770	25,677
Non-current (over 12 months)	10,592	13,525	8,992	11,426
	43,402	45,857	33,762	37,103

Note 18 - Capital Funds

a) Share capital

Details of authorized share capital of the Parent Bank follow:

	2021	2020	2019
	(In Millions of Pesos, except par value per share)		
Authorized capital (at P10 par value per share)			
Common shares	50,000	49,000	49,000
Preferred A shares	600	600	600
	50,600	49,600	49,600

Details of the Parent Bank's subscribed common shares are as follows:

	2021	2020	2019
	(In absolute number of shares)		
Common shares			
At January 1	4,513,101,605	4,507,071,644	4,502,449,501
Subscription of shares during the year	26,650	6,029,961	4,622,143
At December 31	4,513,128,255	4,513,101,605	4,507,071,644
	(In absolute amounts)		
Subscription receivable	-	85,612,950	71,637,390

The BPI common shares are listed and traded in the PSE since October 12, 1971.

On February 10, 2014, additional 370,370,370 common shares were listed as a result of the stock rights offer. Likewise, on April 25, 2018, BPI completed its P50 billion stock rights offer, which paved the way for the issuance of 558,659,210 new common shares at P89.50 per share. The new shares were issued to shareholders as of record date April 6, 2018, at a ratio of 1:7.0594, or 1 new common share for every 7 shares held, or 14.2% of BPI's outstanding common shares. These new shares were listed on the Philippine Stock Exchange (PSE) on May 4, 2018.

As at December 31, 2021, 2020 and 2019, the Parent Bank has 12,084, 12,306 and 12,396 common shareholders, respectively. There are no preferred shares issued and outstanding at December 31, 2021, 2020 and 2019.

Preferred A shares shall have pre-emptive rights with respect to additional issues of Preferred A shares of the Parent Bank.

On June 8, 2021, the BSP approved the amendment to the Parent Bank's Articles of Incorporation reflecting the increase in its authorized share capital from 4.9 billion shares to 5 billion shares. The SEC approved the amendment on December 21, 2021.

b) Reserves

The account consists of:

	Consolidated			Parent		
	2021	2020	2019	2021	2020	2019
	(In Millions of Pesos)					
Reserve for trust business	389	199	199	-	-	-
Executive stock option plan amortization	141	183	136	126	162	119
Reserve for self-insurance	34	34	34	34	34	34
General loan loss provision	-	-	4,739	-	-	4,739
	564	416	5,108	160	196	4,892

General loan loss provision (GLLP)

In 2018, the BSP issued Circular 1011 which mandates among others, banks to set up GLLP equal to 1% of all outstanding “Stage 1” on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. Under the said Circular, if the PFRS 9 “Stage 1” loan loss provision is lower than the required GLLP, the deficiency shall be recognized as an appropriation of retained earnings or surplus. Until December 31, 2019, the BPI Group has appropriated P4,739 million (2018 - P3,867 million) representing the excess of GLLP over PFRS 9 loan loss provision out of surplus to meet the requirements of the BSP. As at December 31, 2021 and December 31, 2020, the GLLP appropriation is nil as the loan loss provision for both periods are higher than the required GLLP.

Reserve for trust business

In compliance with existing BSP regulations, 10% of BPI AMTC’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 authorized capital of BPI AMTC.

Reserve for self-insurance

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.

Share-based compensation plan

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

Date	Approved ESOP shares	Approved ESPP shares
December 11, 2019	4,035,000	9,100,000
December 12, 2018	4,168,000	11,500,000
December 6, 2017	3,560,000	7,500,000
January 25, 2017	3,560,000	4,500,000

The ESOP has a three-year vesting period 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 30-trading days immediately prior to the grant date. The weighted average fair value of options granted determined using the Black-Scholes valuation model was P19.04 and P6.50 for the options granted in December 2019 and 2018, respectively.

Movements in the number of share options under the ESOP are summarized as follows:

	2021	2020	2019
At January 1	15,921,667	13,965,001	11,773,334
Granted	-	3,950,000	4,000,000
Exercised	(1,650,000)	(141,667)	(1,116,666)
Cancelled	(1,366,667)	(1,851,667)	(691,667)
At December 31	12,905,000	15,921,667	13,965,001
Exercisable	9,095,002	8,526,667	6,733,334

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

The subscription price for ESPP is equivalent to 15% below the volume weighted average of BPI share price for the 30-trading days immediately prior to the grant date. The subscription dates for the last three-year ESPP were on February 4, 2020, January 7, 2019 and January 8, 2018.

c) *Accumulated other comprehensive loss*

Details of and movements in the account are as follows:

	Consolidated			Parent		
	2021	2020	2019	2021	2020	2019
	(In Millions of Pesos)					
Fair value reserve on financial assets at FVOCI						
At January 1	559	(84)	(33)	932	(61)	69
From continuing operations						
Unrealized fair value loss before tax	(2,864)	(69)	(424)	(2,779)	889	(94)
Amount recycled to profit or loss	47	494	387	148	479	(32)
Deferred income tax effect	(772)	218	(14)	(628)	(375)	(4)
At December 31	(3,030)	559	(84)	(2,327)	932	(61)
Share in other comprehensive income (loss) of insurance subsidiaries						
At January 1	219	118	(36)	-	-	-
Share in other comprehensive income (loss) for the year, before tax	(184)	131	389	-	-	-
Effect of PFRS9 adoption	-	-	(229)	-	-	-
Deferred income tax effect	36	(30)	(6)	-	-	-
At December 31	71	219	118	-	-	-
Share in other comprehensive income (loss) of associates						
At January 1	446	1,048	(206)	-	-	-
Share in other comprehensive (loss) income for the year	(280)	(602)	1,254	-	-	-
At December 31	166	446	1,048	-	-	-
Translation adjustment on foreign operations						
At January 1	(1,144)	(906)	(704)	(291)	(124)	-
Translation differences and others	627	(238)	(202)	291	(167)	(124)
At December 31	(517)	(1,144)	(906)	-	(291)	(124)
Remeasurements of defined benefit obligation, net						
At January 1	(5,979)	(2,615)	(1,197)	(4,929)	(2,131)	(990)
From continuing operations						
Actuarial gains (losses) for the year	1,372	(4,729)	(1,829)	1,039	(4,214)	(1,508)
Deferred income tax effect	(753)	1,368	427	(608)	1,416	367
From discontinued operations						
Actuarial losses for the year	-	(7)	(22)	-	-	-
Deferred income tax effect	-	4	6	-	-	-
At December 31	(5,360)	(5,979)	(2,615)	(4,498)	(4,929)	(2,131)
	(8,670)	(5,899)	(2,439)	(6,825)	(4,288)	(2,316)

d) *Dividend declarations*

Cash dividends declared by the BOD of the Parent Bank are as follows:

Date declared	Amount of dividends	
	Per share	Total
	(In Millions of Pesos)	
<i>For the year ended December 31, 2021</i>		
May 19, 2021	0.90	4,062
November 17, 2021	0.90	4,062
		8,124
<i>For the year ended December 31, 2020</i>		
May 20, 2020	0.90	4,062
October 21, 2020	0.90	4,062
		8,124
<i>For the year ended December 31, 2019</i>		
May 15, 2019	0.90	4,056
November 20, 2019	0.90	4,057
		8,113

On September 30, 2021, the BOD of BPI/MS Insurance Corporation, a subsidiary of the Parent Bank, approved the cash dividend declaration of P376 million to be paid on or before November 30, 2021, of which P184 million is attributable to the non-controlling interest.

e) *Earnings per share (EPS)*

EPS is calculated as follows:

	Consolidated			Parent		
	2021	2020	2019	2021	2020	2019
	(In Millions of Pesos, except earnings per share amounts)					
a) Net income attributable to equity holders of the Parent Bank from:						
Continuing operations	23,880	21,620	28,761	22,783	24,611	26,218
Discontinued operations	-	(211)	42	-	-	-
b) Weighted average number of common shares outstanding during the year	4,513	4,513	4,507	4,513	4,513	4,507
c) Basic EPS (a/b) based on net income from:						
Continuing operations	5.29	4.79	6.38	5.05	5.45	5.82
Discontinued operations	-	(0.05)	0.01	-	-	-

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

Note 19 - Other Operating Income

Details of other operating income are as follows:

	Consolidated			Parent		
	2021	2020	2019	2021	2020	2019
	(In Millions of Pesos)					
Trust and asset management fees	3,913	3,495	2,868	6	5	4
Credit card income	3,542	3,091	3,523	3,449	3,013	3,423
Gain on sale of assets	477	372	1,284	129	124	898
Rental income	236	208	226	285	260	267
Dividend income	30	57	76	6,939	7,792	3,794
Miscellaneous income	2,572	1,919	2,298	2,218	2,265	2,101
	10,770	9,142	10,275	13,026	13,459	10,487

Dividend income recognized by the Parent Bank substantially pertains to dividend distributions of subsidiaries.

Miscellaneous income includes recoveries on charged-off assets, fees arising from service arrangements with customers and related parties and share in net income (loss) of associates.

Note 20 - Leases

The BPI Group (as lessee) has various lease agreements which mainly pertain to branch premises and equipment. Lease terms are negotiated either on a collective or individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets cannot be used as security for borrowing purposes. The balances arising from the lease contracts are presented below:

Right-of-use assets and lease liabilities (PFRS 16)

Details of right-of-use assets and lease liabilities as at December 31 are as follows:

	Notes	Consolidated		Parent	
		2021	2020	2021	2020
		(In Millions of Pesos)			
<i>Right-of-use assets</i>					
Buildings and leasehold improvements	11	6,631	7,222	5,712	6,114
<i>Lease liabilities (included in "Deferred credits and other liabilities")</i>	17				
Current		2,486	1,772	2,188	1,448
Non-current		4,840	6,039	4,060	5,111
		7,326	7,811	6,248	6,559

Additions to the right-of-use assets (Note 11) in 2021 aggregated P1,622 million (2020 - P1,484 million) and P1,351 million (2020 - P1,074 million) for BPI Group and BPI Parent, respectively. Total cash outflow for leases in 2021 amounted to P2,211 million (2020 - P1,814 million) and P1,724 million (2020 - P1,387 million) for BPI Group and BPI Parent, respectively.

Amounts recognized in the statement of income relating to leases:

	Note	Consolidated		Parent	
		2021	2020	2021	2020
(In Millions of Pesos)					
<i>Depreciation expense</i>					
Buildings and leasehold improvements	11	2,029	2,068	1,663	1,691
Interest expense (included in "Occupancy and equipment-related expenses")		313	357	246	279
Expense relating to short-term leases (included in "Occupancy and equipment-related expenses")		141	125	141	117
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in "Occupancy and equipment-related expenses")		144	108	101	57
		2,627	2,658	2,151	2,144

The BPI Group has received COVID-19 related rent discount and deferral of the escalation of lease payments and has applied the practical expedients allowed under PFRS 16, *Leases*, introduced in May 2020 in accounting for the rent concessions. Consequently, the BPI Group recognized the following amounts for the years ended December 31:

	Consolidated		Parent	
	2021	2020	2021	2020
(In Millions of Pesos)				
Rent concession (included in "Miscellaneous income")	70	149	69	141
Rent escalation deferral				
Increase (decrease) in right-of-use assets	45	(222)	45	(205)
Increase (decrease) in lease liabilities	45	(144)	45	(101)

Critical accounting judgment - Determining the lease term

In determining the lease term, the BPI Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Critical accounting judgment - Determining the incremental borrowing rate

To determine the incremental borrowing rate, each entity within the BPI Group:

- where possible, uses recent third-party financing received as a starting point, adjusted to reflect changes in financing conditions since third party financing was received; or
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held which do not have recent third-party financing; and
- makes adjustments specific to the lease (e.g. term, currency and security).

The BPI Group's weighted average incremental borrowing rates applied to the lease liabilities ranged from 3.94% to 7.19% (2020 - 4.30% to 4.84%). The rates were determined in reference to the borrowing rates arising from the most recent debt issuances of the Parent Bank.

Note 21 - Operating Expenses

a) Compensation and fringe benefits

Details of the account for the years ended December 31:

	Note	Consolidated			Parent		
		2021	2020	2019	2021	2020	2019
(In Millions of Pesos)							
Salaries and wages		15,050	14,896	14,517	11,461	11,411	11,231
Retirement expense	23	1,443	1,068	771	1,135	872	536
Other employee benefit expenses		2,035	2,041	2,081	1,498	1,587	1,712
		18,528	18,005	17,369	14,094	13,870	13,479

Other employee benefit expenses pertain to employee incentives like HMO coverage and SSS premiums.

b) Other operating expenses

Details of the account for the years ended December 31:

	Consolidated			Parent		
	2021	2020	2019	2021	2020	2019
	(In Millions of Pesos)					
Insurance	4,188	4,289	4,142	3,090	3,065	2,861
Taxes and licenses	1,285	1,263	927	996	957	657
Travel and communication	1,123	1,132	1,199	950	961	974
Advertising	970	804	1,492	920	754	1,316
Supervision and examination fees	843	733	653	593	570	506
Litigation expenses	373	430	549	101	249	308
Office supplies	343	390	477	254	309	389
Management and other professional fees	337	301	501	254	248	388
Amortization expense	135	339	311	-	-	30
Shared expenses	-	-	-	53	39	39
Others	6,598	5,862	5,988	5,009	4,636	4,590
	16,195	15,543	16,239	12,220	11,788	12,058

Insurance expense comprise mainly of premium payments made to Philippine Deposit Insurance Corporation and other product-related insurance costs.

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

Note 22 - Income Taxes

The reconciliation between the income tax expense at the statutory tax rate and the effective income tax for the years ended December 31 is shown below:

	Consolidated					
	2021		2020		2019	
	Amount	Rate (%)	Amount	Rate (%)	Amount	Rate (%)
	(In Millions of Pesos)					
Statutory income tax	8,384	25.00	7,667	30.00	11,506	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	39	0.12	(229)	(0.90)	(1,553)	(4.05)
Tax-exempt income	(1,780)	(5.31)	(5,320)	(20.82)	(2,925)	(7.63)
Others, net	2,784	8.30	1,788	6.88	2,327	6.07
Effective income tax	9,427	28.11	3,906	15.16	9,355	24.39

	Parent					
	2021		2020		2019	
	Amount	Rate (%)	Amount	Rate (%)	Amount	Rate (%)
	(In Millions of Pesos)					
Statutory income tax	7,465	25.00	8,621	30.00	10,327	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	91	0.30	(258)	(0.90)	(1,445)	(4.20)
Tax-exempt income	(933)	(3.12)	(3,823)	(13.30)	(1,637)	(4.76)
Others, net	453	1.52	(412)	(1.43)	960	2.79
Effective income tax	7,076	23.70	4,128	14.37	8,205	23.83

The Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) bill which provides for lower corporate income tax rates and rationalizes fiscal incentives had been signed into law by the President of the Philippines in 2021 but with an effective date of July 1, 2020. As a result of the CREATE law, the BPI Group recognized an adjustment in 2021 pertaining to the December 31, 2020 balances which resulted in a decrease of P819 million in current income tax expense and an increase of P2,718 million in deferred income tax expense using the weighted average effective annual income tax rate of 27.5%. The Parent Bank likewise recognized a decrease of P724 million in current income tax expense and an increase of P1,976 million in deferred income tax expense, respectively.

Note 23 - Retirement Plans

The BPI Group maintains both defined benefit and defined contribution retirement plans. Assets of both retirement plans are held in trust and governed by local regulations and practices in the Philippines. The key terms of these pension plans are discussed below.

a) Defined benefit retirement plan

BPI Group (excluding insurance operations)

BPI has a unified plan which covers all subsidiaries except insurance entities. Under this plan, the normal retirement age is 60 years. Those who elect to retire prior to the normal retirement age will require company approval, subject to meeting the eligibility conditions on age and years of credited services. 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 the highest amount among the (1) same basis as in voluntary retirement; (2) 100% of basic monthly salary of the employee at the time of his retirement for each year of service; and (3) minimum amount required by Labor Code.

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

Non-life insurance subsidiary

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

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

Following are the amounts recognized based on recent actuarial valuation exercise:

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

	Consolidated		Parent	
	2021	2020	2021	2020
		(In Millions of Pesos)		
Present value of defined benefit obligation	15,580	16,532	13,361	14,008
Fair value of plan assets	(9,999)	(9,189)	(8,504)	(7,762)
Pension liability recognized in the statement of condition	5,581	7,343	4,857	6,246
Effect of asset ceiling	23	16	-	-
	5,604	7,359	4,857	6,246

Pension liability is shown as part of "Miscellaneous liabilities" within Deferred credits and other liabilities (Note 17).

The movements in plan assets are summarized as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
		(In Millions of Pesos)		
At January 1	9,189	12,172	7,762	10,130
Contributions	1,386	915	1,194	770
Interest income	356	666	299	556
Benefit payments	(909)	(2,077)	(733)	(1,633)
Remeasurement - return on plan assets	(23)	(2,468)	(18)	(2,061)
Effect of deconsolidation	-	(19)	-	-
At December 31	9,999	9,189	8,504	7,762

The carrying values of the plan assets represent their fair value as at December 31, 2021 and 2020.

The plan assets are comprised of the following:

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
Debt securities	6,228	4,343	5,297	3,668
Equity securities	2,692	3,807	2,289	3,216
Others	1,079	1,039	918	878
	9,999	9,189	8,504	7,762

The plan assets of the unified retirement plan include investment in BPI's common shares with aggregate fair value of P485 million at December 31, 2021 (2020 - P390 million). An officer of the Parent Bank exercises the voting rights over the plan's investment in BPI's common shares.

Others include cash and cash equivalents and other receivables.

The movements in the present value of defined benefit obligation are summarized as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
At January 1	16,532	14,892	14,008	12,545
Interest cost	654	830	555	698
Current service cost	853	756	703	628
Remeasurement - changes in financial assumptions	(1,313)	2,265	(1,094)	1,832
Remeasurement - experience adjustment	(18)	(80)	97	(62)
Remeasurement - changes in demographic assumption	(219)	-	(175)	-
Benefit payments	(909)	(2,077)	(733)	(1,633)
Effect of deconsolidation	-	(54)	-	-
At December 31	15,580	16,532	13,361	14,008

The BPI Group has no other transactions with the plan other than the regular funding contributions presented above for the years ended December 31, 2021 and 2020.

(b) Expense recognized in the statement of income for the year ended December 31 are as follows:

	Consolidated			Parent		
	2021	2020	2019	2021	2020	2019
	(In Millions of Pesos)					
Current service cost	853	754	545	703	628	456
Net interest cost	298	164	86	256	142	80
	1,151	918	631	959	770	536

The current service cost and net interest cost of the BPI Group as presented above include the portion of BPI CTL for the year ended December 31, 2019 amounting to P2.4 million.

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

	Consolidated		Parent	
	2021	2020	2021	2020
Discount rate	4.93%	3.96%	4.93%	3.96%
Future salary increases	5.00%	5.00%	5.00%	5.00%

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

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

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

The BPI Group contributes to the plan depending on the suggested funding contribution as calculated by an independent actuary engaged by management. The expected contributions for the year ending December 31, 2022 for the BPI Group and the Parent Bank amount to P1,312 million and P1,111 million, respectively (2020 - P1,562 million and P1,301 million, respectively). The weighted average duration of the defined benefit obligation under the BPI unified retirement plan as at December 31, 2021 is 8.12 years (2020 - 9.56 years).

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

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
Up to one year	1,535	1,225	1,346	1,081
More than 1 year to 5 years	5,671	4,715	4,997	4,302
More than 5 years to 10 years	9,397	8,604	8,018	7,388
More than 10 years to 15 years	8,430	9,781	7,111	8,127
More than 15 years to 20 years	4,839	5,243	3,905	4,327
Over 20 years	13,553	18,369	10,428	12,669

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

Consolidated

2021

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
Discount rate	1.00%	Decrease by 7.60%	Increase by 8.70%
Salary growth rate	1.00%	Increase by 8.60%	Decrease by 7.60%

2020

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 5.40%	Increase by 6.00%
Salary growth rate	1.0%	Increase by 10.10%	Decrease by 8.80%

Parent

2021

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
Discount rate	1.00%	Decrease by 7.40%	Increase by 8.50%
Salary growth rate	1.00%	Increase by 8.40%	Decrease by 7.50%

2020

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 4.40%	Increase by 4.70%
Salary growth rate	1.0%	Increase by 9.60%	Decrease by 8.50%

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.

b) Defined contribution retirement plan subject to the requirements of Republic Act (RA) No. 7641

All non-unionized employees hired on or after the January 1, 2016 are automatically under the new defined contribution plan. Employees hired prior to the effective date shall have the option to elect to become members of the new defined contribution plan.

Under the normal or late retirement, employees are entitled to a benefit equal to the total of the following amounts:

- The higher between (a) cumulative fund balance equivalent to 8% of the basic monthly salary and (b) the minimum legal retirement benefit under the Labor Code; and
- Employee contributions fund

The defined contribution retirement plan has a defined benefit minimum guarantee equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641.

Accordingly, the liability for the defined benefit minimum guarantee is actuarially calculated similar to the defined benefit plan.

The funding status of the defined contribution plan as at December 31 is shown below:

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
Fair value of plan assets	1,981	1,478	1,474	1,102
Present value of defined benefit obligation	(760)	(1,069)	(563)	(692)
	1,221	409	911	410
Effect of asset ceiling	1,221	428	911	410
	-	(19)	-	-

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

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
At January 1	1,069	811	692	604
Interest cost	42	45	27	34
Current service cost	196	154	112	105
Benefit payments	(71)	(93)	(49)	(73)
Remeasurement - changes in financial assumptions	(155)	303	(112)	189
Remeasurement - experience adjustment	(65)	(146)	79	(167)
Remeasurement - changes in demographic assumptions	(256)	-	(186)	-
Effect of deconsolidation	-	(5)	-	-
At December 31	760	1,069	563	692

The movements in the fair value of plan assets follow:

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
At January 1	1,478	1,748	1,102	1,325
Contribution paid by employer	320	318	220	218
Interest income	62	101	46	77
Benefit payments	(71)	(93)	(49)	(73)
Remeasurement - return on plan assets	192	(585)	155	(445)
Effect of deconsolidation	-	(11)	-	-
At December 31	1,981	1,478	1,474	1,102

Total retirement expense for the year ended December 31, 2021 under the defined contribution plan for the BPI Group and Parent Bank amounts to P193 million (2020 - P150 million) and P110 million (2020 - P102 million), respectively.

The components of plan assets of the defined contribution as at December 31 are as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
Debt securities	1,139	720	847	537
Equity securities	839	695	624	518
Others	3	63	3	47
	1,981	1,478	1,474	1,102

The weighted average duration of the defined contribution retirement plan for the BPI Group and Parent Bank is 18.88 years (2020 - 20.46 years).

Critical accounting estimate - Calculation of defined benefit obligation

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 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, 2021 and 2020 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.

Note 24 - Asset Management Business

At December 31, 2021, the net asset value of trust and fund assets managed by the BPI Group through BPI AMTC amounts to P882 billion (2020 - P854 billion).

As required by the General Banking Act, BPI AMTC has deposited government securities with the BSP valued at P503 million (2020 - P426 million).

Note 25 - Related Party Transactions

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

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

Transactions with related parties have terms and conditions that are generally comparable to those offered to non-related parties or to similar transactions in the market.

A summary of significant related party transactions and outstanding balances as at and for the years ended December 31 is shown below (transactions with subsidiaries have been eliminated in the consolidated financial statements):

Consolidated

2021			
	Transactions for the year	Outstanding balances	Terms and conditions
(In Millions of Pesos)			
Loans and advances from:			
Subsidiaries	(189)	-	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 2.50% to 9.63% (including those pertaining to foreign currency-denominated loans). These are collectible in cash at gross amount and with maturity periods ranging from 5 days to 15 years. Additional information on DOSRI loans are discussed below.
Associates	(449)	60	
Ayala Group	(11,314)	65,195	
Other related parties	(23,614)	546	
	(35,566)	65,801	
Deposits from:			
Subsidiaries	3,441	11,383	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.07% to 0.14% Savings - 0.10% to 0.24% Time - 1.73% to 2.00% Demand and savings deposits are payable in cash and on demand. Time deposits are payable in cash at maturity.
Associates	(4)	1,273	
Ayala Group	(7,349)	11,401	
Key management personnel	200	984	
	(3,712)	25,041	
2020			
	Transactions for the year	Outstanding balances	Terms and conditions
(In Millions of Pesos)			
Loans and advances from:			
Subsidiaries	131	189	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 2.32% to 9.87% (including those pertaining to foreign currency-denominated loans). These are collectible in cash at gross amount and with maturity periods ranging from 5 days to 15 years. Additional information on DOSRI loans are discussed below.
Associates	159	509	
Ayala Group	16,624	76,509	
Other related parties	23,424	24,160	
	40,338	101,367	
Deposits from:			
Subsidiaries	(1,804)	7,942	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.13% to 0.26% Savings - 0.25% to 0.61% Time - 1.91% to 3.65% Demand and savings deposits are payable in cash and on demand. Time deposits are payable in cash at maturity.
Associates	(626)	1,277	
Ayala Group	5,463	18,750	
Key management personnel	(454)	783	
	2,579	28,752	

2019			
	Transactions for the year	Outstanding balances	Terms and conditions
(In Millions of Pesos)			
Loans and advances from:			
Subsidiaries	5	58	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 4.18% to 10.69% (including those pertaining to foreign currency-denominated loans). These are collectible in cash at gross amount and with maturity periods ranging from 5 days to 15 years. Additional information on DOSRI loans are discussed below.
Associates	(38)	350	
Ayala Group	27,306	59,885	
Other related parties	275	736	
	27,548	61,029	
Deposits from:			
Subsidiaries	1,024	9,746	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.22% to 0.27% Savings - 0.59% to 0.62% Time - 3.61% to 5.15% Demand and savings deposits are payable in cash and on demand. Time deposits are payable in cash at maturity.
Associates	1,486	1,903	
Ayala Group	(3,517)	13,287	
Key management personnel	694	1,238	
	(313)	26,174	

Parent

2021			
	Transactions for the year	Outstanding balances	Terms and conditions
(In Millions of Pesos)			
Loans and advances from:			
Subsidiaries	-	-	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 2.50% to 4.56% (including those pertaining to foreign currency-denominated loans). These are collectible in cash at gross amount and with maturity periods ranging from 5 days to 15 years. Additional information on DOSRI loans are discussed below.
Associates	(449)	60	
Ayala Group	(5,928)	65,195	
Other related parties	(7,025)	544	
	(13,402)	65,799	
Deposits from:			
Subsidiaries	3,399	11,331	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.07% to 0.14% Savings - 0.10% to 0.22% Time - 0.79% to 1.04% Demand and savings deposits are payable in cash and on demand. Time deposits are payable in cash at maturity.
Associates	17	1,271	
Ayala Group	(6,721)	10,129	
Key management personnel	219	947	
	(3,086)	23,678	

2020			
	Transactions for the year	Outstanding balances	Terms and conditions
(In Millions of Pesos)			
Loans and advances from:			
Subsidiaries	(58)	-	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 2.41% to 5.25% (including those pertaining to foreign currency-denominated loans). These are collectible at gross amount in cash and with maturity periods ranging from 5 days to 15 years. Additional information on DOSRI loans are discussed below.
Associates	159	509	
Ayala Group	11,237	71,123	
Other related parties	6,833	7,569	
	18,171	79,201	
Deposits from:			
Subsidiaries	(1,782)	7,933	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.12% to 0.25% Savings - 0.24% to 0.56% Time - 0.99% to 3.44% Demand and savings deposits are payable in cash and on demand. Time deposits are payable in cash at maturity.
Associates	(632)	1,254	
Ayala Group	3,930	16,851	
Key management personnel	(378)	727	
	1,138	26,765	
2019			
	Transactions for the year	Outstanding balances	Terms and conditions
(In Millions of Pesos)			
Loans and advances from:			
Subsidiaries	5	58	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 0.10% to 5.88% (including those pertaining to foreign currency-denominated loans). These are collectible at gross amount in cash and with maturity periods ranging from 5 days to 15 years. Additional information on DOSRI loans are discussed below.
Associates	(38)	350	
Ayala Group	27,306	59,885	
Other related parties	275	736	
	27,548	61,029	
Deposits from:			
Subsidiaries	1,083	9,715	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.21% to 0.26% Savings - 0.55% to 0.58% Time - 3.27% to 5.41% Demand and savings deposits are payable in cash and on demand. Time deposits are payable in cash at maturity.
Associates	1,473	1,887	
Ayala Group	(2,053)	12,921	
Key management personnel	642	1,105	
	1,145	25,628	

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

Consolidated

	2021	2020	2019
	(In Millions of Pesos)		
Interest income			
Subsidiaries	5	21	99
Associates	11	19	21
Ayala Group	2,782	3,283	2,867
Other related parties	21	910	44
	2,819	4,233	3,031
Other income			
Subsidiaries	1,671	1,896	2,260
Associates	245	1,246	1,511
Ayala Group	2,470	656	580
	4,386	3,798	4,351
Interest expense			
Subsidiaries	5	21	99
Associates	1	3	3
Ayala Group	18	39	128
Key management personnel	2	5	9
	26	68	239
Other expenses			
Subsidiaries	1,534	1,766	2,148
Associates	-	-	22
Ayala Group	1,112	114	435
	2,646	1,880	2,605
Retirement benefits			
Key management personnel	46	56	51
Salaries, allowances and other short-term benefits			
Key management personnel	829	966	871
Directors' remuneration	119	126	121

Parent

	2021	2020	2019
	(In Millions of Pesos)		
Interest income			
Subsidiaries	-	-	-
Associates	11	19	21
Ayala Group	2,782	3,283	2,867
Other related parties	21	390	44
	2,814	3,692	2,932
Other income			
Subsidiaries	1,630	2,019	2,157
Associates	312	1,139	1,272
Ayala Group	1,645	287	372
	3,587	3,445	3,801
Interest expense			
Subsidiaries	5	21	99
Associates	1	3	3
Ayala Group	13	29	123
Key management personnel	1	4	5
	20	57	230
Other expenses			
Subsidiaries	10	9	28
Ayala Group	867	103	435
	877	112	463
Retirement benefits			
Key management personnel	41	52	44
Salaries, allowances and other short-term benefits			
Key management personnel	746	890	751
Directors' remuneration	86	98	92

Other income mainly consists of revenue from service arrangements with related parties in which the related outstanding balance is included under accounts receivable. Other expenses pertain to shared costs with related parties and the related outstanding balance is recognized as accounts payable.

Details of DOSRI loans are as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
Outstanding DOSRI loans	15,230	15,675	15,229	15,673

As at December 31, 2021, allowance for credit losses amounting to P280 million (2020 - P674 million) have been recognized against receivables from related parties.

Note 26 - Financial Risk Management

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

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

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

The most important financial risks that the BPI Group manages are credit risk, liquidity risk and market risk.

26.1 Credit risk

The BPI Group takes on exposure to credit risk, which is the risk that may arise if a borrower or counterparty fails to meet its obligations in accordance with agreed terms. Credit risk is the single largest risk for the BPI Group's business; management therefore carefully manages its exposure to credit risk as governed by relevant regulatory requirements and international benchmarks.

The most evident source of credit risk is loans and advances; however, other sources of credit risk exist throughout the activities of the BPI Group, including in credit-related activities recorded in the banking books, investment securities in the trading books and off-balance sheet transactions.

26.1.1 Credit risk management

The Credit Policy and Risk Management (CPRM) division is responsible for the overall management of the BPI Group's credit risk. CPRM supports the senior management in coordination with various business lending and operations units in identifying, measuring and managing credit risk.

The BPI Group employs a range of policies and practices to mitigate credit risk. The BPI Group monitors its portfolio based on different segmentation to reflect the acceptable level of diversification and concentration. Concentration risk in credit portfolios is inherent in banking and cannot be totally eliminated. However, said risk may be reduced by adopting proper risk controls and diversification strategies to prevent undue risk concentrations from excessive exposures to particular counterparties, industries, countries or regions.

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 group of borrowers, and to industry segments. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when deemed necessary. Limits on large exposures and credit concentration are approved by the BOD through the RMC.

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. Methodologies for measuring credit risk vary depending on several factors, including type of asset, risk measurement parameters and risk management and collection processes. Credit risk measurement is based on the PD of an obligor or counterparty, the loss severity given a default event and the EAD.

A rigorous control framework is applied in the determination of expected credit loss (ECL) models. The BPI Group has policies and procedures that govern the calculation of ECL. All ECL models are regularly reviewed by the Risk Management Office to ensure that necessary controls are in place and the models are applied accordingly.

The review and validation of ECL models are performed by groups that are independent of the team that prepares the calculations, e.g., Risk Models Validation Department and Internal Auditors. Expert judgments on measurement methodologies and assumptions are reviewed by a group of internal experts from various functions.

Credit loss estimates are based on estimates of the PD and loss severity given a default. The PD is the likelihood that a borrower will default on its obligation; the LGD is the estimated loss on the loan that would be realized upon the default and takes into consideration collateral and structural support for each credit facility. The estimation process includes assigning risk ratings to each borrower and credit facility to differentiate risk within the portfolio. These risk ratings are reviewed regularly by Credit Risk Management and revised as needed to reflect the borrower's current financial position, risk profile and related collateral. The calculations and assumptions are based on both internal and external historical experience and management judgment and are reviewed regularly.

The BPI Group's forward-looking, point-in-time PD models are driven by internal forecasts of macroeconomic variables (MEVs) over the next five years. These models were previously recalibrated annually, but in view of the COVID-19 pandemic, more frequent review and update of these models were conducted starting April 2020 as MEV forecasts were revised quarterly in response to changing macroeconomic conditions. Furthermore, the pandemic was expected to significantly increase foreclosures and dampen demand for auto and real estate collaterals and thus decrease market prices, so appropriate haircuts were applied on estimated recoveries from collaterals.

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. For certain securities, the introduction of the delivery versus payment facility in the local market has brought down settlement risk significantly.

The BPI Group employs specific control and risk mitigation measures, some of which are outlined below:

(a) Collateral or guarantees

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 BPI Group assesses the valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The common collateral types for loans and advances are:

- Mortgages over physical properties (e.g., real estate and personal);
- Mortgages over financial assets (e.g., guarantees); and
- Margin agreement for derivatives, for which the BPI Group has also entered into master netting agreements.

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.

The BPI Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collaterals held by the BPI Group since the prior period.

(b) Market Limits

The BPI Group maintains 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 portion of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments (except where the BPI Group requires margin deposits from counterparties).

(c) Master netting arrangements

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

(d) Credit-related commitments

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 and therefore carry less risk than a direct loan.

26.1.2 Credit risk rating

The BPI Group uses internal credit risk gradings that reflect its assessment of the PD of individual counterparties. The BPI Group uses its internal credit risk rating system, credit models or external ratings from reputable credit rating agencies. Specific data about the borrower and loan are collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) and are fed into the internal credit scoring models. In addition, the internal models allow expert judgment from the Credit Risk Rating Committee and consideration of other data inputs not captured into the model in the determination of the final internal credit score for each borrower.

The BPI Group has adopted a credit classification system that aims to identify deteriorating exposures on a timely basis. Exposures are classified into each of the following categories:

- *Standard monitoring* - This category includes accounts which do not have a greater-than-normal risk and do not possess the characteristics of special monitoring and defaulted loans. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated.
- *Special monitoring* - This category includes accounts which need closer and frequent monitoring to prevent any further credit deterioration. The counterparty is assessed to be vulnerable to highly vulnerable and its capacity to meet its financial obligations is dependent upon favorable business, financial, and economic conditions.
- *Default* - This category includes accounts which exhibit probable to severe weaknesses wherein probability of non-repayment of loan obligation is ranging from high to extremely high.

i. *Corporate (including cross-border loans) and Small and Medium-sized Enterprise (SME) loans*

The BPI Group's internal credit risk rating system comprises a 22-scale rating with eighteen (18) 'pass' rating levels for large corporate accounts and 14-scale rating system with ten (10) 'pass' rating grades for SME accounts. For cross-border loans, the BPI Group also uses the available external credit ratings issued by reputable rating agencies. The level of risk and associated PD are determined using either the internal credit risk ratings or external credit ratings, as applicable, for corporate loans.

The BPI Group uses the following set of classifications:

Classifications	Internal Credit Risk Rating System (ICRRS)		External Credit Rating by reputable rating agencies
	Large corporate	SME	Cross-Border
Standard monitoring	AAA to B- or unrated and based on prescribed days past due (dpd) threshold	AAA to B- or unrated and based on prescribed dpd threshold	Investment grade (IG) or Non-IG with no significant increase in credit risk (SICR)
Special monitoring	CCC to C or based on prescribed dpd threshold	CCC to C or based on prescribed dpd threshold	Non-IG with SICR but assessed to be non-impaired
Default	Adversely classified accounts (ACA) or based on prescribed dpd threshold or Item in litigation (IL)	ACA or based on prescribed dpd threshold or IL	Default, with objective evidence of impairment

ii. *Retail loans*

The BPI Group uses automated scoring models to assess the level of risk for retail accounts. Behavioral indicators are considered in conjunction with other forward-looking information (e.g., industry forecast) to assess the level of risk of a loan. After the date of initial recognition, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score which is mapped to a PD.

Classifications	Credit cards	Personal, auto and housing	SEME*
Standard monitoring	Current to 29 dpd	Current to 30 dpd	Current to 7 dpd
Special monitoring	30 to 89 dpd	31 to 90 dpd	Not applicable
Default	90 dpd and up or IL	>90, IL, Loss	8 dpd and up

*Self-employed micro-entrepreneurs

iii. *Treasury and other investment debt securities*

Investments in high grade 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. The level of credit risk for treasury and other investment debt securities and their associated PD are determined using reputable external ratings and/or available and reliable qualitative and quantitative information. In the absence of credit ratings, a comparable issuer or guarantor rating is used. Should there be a change in the credit rating of the chosen comparable, evaluation is made to ascertain whether the rating change is applicable to the security being assessed for impairment.

Classifications	External credit rating by reputable rating agencies
Standard monitoring	IG or Non-IG with no SICR
Special monitoring	Non-IG with SICR but assessed to be non-impaired
Default	Default, with objective evidence of impairment

iv. *Other financial assets at amortized cost*

For other financial assets (non-credit receivables), the BPI Group applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss methodology. These financial assets are grouped based on shared risk characteristics and aging profile. For some of these, impairment is assessed individually at a counterparty level.

26.1.3 Maximum exposure to credit risk

26.1.3.1 Loans and advances, net

Credit risk exposures relating to on-balance sheet loans and advances are as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
Corporate and SME loans, net	1,183,793	1,143,340	1,168,666	1,120,784
Retail loans, net	292,734	264,073	64,386	54,287
	1,476,527	1,407,413	1,233,052	1,175,071

The carrying amount of loans and advances above also represents the BPI Group's maximum exposure to credit risk. The following tables contain an analysis of the credit risk exposure of each financial instrument for which an ECL allowance is recognized.

Credit quality of loans and advances, net

Consolidated

Corporate and SME loans

	2021				2020			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	(In Millions of Pesos)							
Credit grade								
Standard monitoring	945,623	65,057	-	1,010,680	941,379	76,645	-	1,018,024
Special monitoring	77,983	96,818	-	174,801	47,630	69,579	-	117,209
Default	-	-	36,223	36,223	-	-	37,566	37,566
Gross amount	1,023,606	161,875	36,223	1,221,704	989,009	146,224	37,566	1,172,799
Loss allowance	(11,318)	(2,728)	(23,865)	(37,911)	(12,721)	(6,667)	(10,071)	(29,459)
Carrying amount	1,012,288	159,147	12,358	1,183,793	976,288	139,557	27,495	1,143,340

Retail loans

	2021				2020			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	(In Millions of Pesos)							
Credit grade								
Standard monitoring	271,163	11,784	-	282,947	221,206	28,821	-	250,027
Special monitoring	465	5,702	-	6,167	88	8,364	-	8,452
Default	-	-	19,473	19,473	-	-	22,893	22,893
Gross amount	271,628	17,486	19,473	308,587	221,294	37,185	22,893	281,372
Loss allowance	(4,967)	(1,970)	(8,916)	(15,853)	(4,282)	(3,530)	(9,487)	(17,299)
Carrying amount	266,661	15,516	10,557	292,734	217,012	33,655	13,406	264,073

Parent

Corporate and SME loans

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
	(In Millions of Pesos)							
Credit grade								
Standard monitoring	936,805	64,334	-	1,001,139	927,938	76,339	-	1,004,277
Special monitoring	73,232	95,982	-	169,214	45,033	65,005	-	110,038
Default	-	-	33,577	33,577	-	-	33,922	33,922
Gross amount	1,010,037	160,316	33,577	1,203,930	972,971	141,344	33,922	1,148,237
Loss allowance	(10,689)	(2,709)	(21,866)	(35,264)	(12,655)	(6,445)	(8,353)	(27,453)
Carrying amount	999,348	157,607	11,711	1,168,666	960,316	134,899	25,569	1,120,784

Retail loans

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
	(In Millions of Pesos)							
Credit grade								
Standard monitoring	60,454	4,552	-	65,006	49,855	5,729	-	55,584
Special monitoring	80	701	-	781	68	711	-	779
Default	-	-	4,199	4,199	-	-	5,267	5,267
Gross amount	60,534	5,253	4,199	69,986	49,923	6,440	5,267	61,630
Loss allowance	(1,057)	(920)	(3,623)	(5,600)	(1,391)	(1,546)	(4,406)	(7,343)
Carrying amount	59,477	4,333	576	64,386	48,532	4,894	861	54,287

The tables below present the gross amount of “Stage 2” loans and advances by age category.

Consolidated

	2021			2020		
	Corporate and SME loans	Retail loans	Total	Corporate and SME loans	Retail loans	Total
	(In Millions of Pesos)					
Current	161,128	7,831	168,959	139,146	21,790	160,936
Past due up to 30 days	605	4,172	4,777	6,573	7,468	14,041
Past due 31 - 90 days	142	5,483	5,625	505	7,927	8,432
Past due 91 - 180 days	-	-	-	-	-	-
Over 180 days	-	-	-	-	-	-
	161,875	17,486	179,631	146,224	37,185	183,409

Parent

	2021			2020		
	Corporate and SME loans	Retail loans	Total	Corporate and SME loans	Retail loans	Total
	(In Millions of Pesos)					
Current	160,063	4,012	164,075	134,433	4,533	138,966
Past due up to 30 days	143	540	683	6,536	1,196	7,732
Past due 31 - 90 days	110	701	811	375	711	1,086
Past due 91 - 180 days	-	-	-	-	-	-
Over 180 days	-	-	-	-	-	-
	160,316	5,253	165,569	141,344	6,440	147,784

26.1.3.2 Treasury and other investment securities, net

Credit risk exposures arising from treasury and other investment securities are as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
		(In Millions of Pesos)		
Due from BSP	268,827	223,989	197,435	197,974
Due from other banks	34,572	40,155	27,734	36,605
Interbank loans receivable and SPAR, net	30,852	30,251	30,023	26,622
Financial assets at FVTPL	21,146	37,140	15,575	33,865
Financial assets at FVOCI	131,390	126,851	113,713	118,623
Investment securities at amortized cost, net	338,672	244,653	333,193	216,810
	825,459	703,039	717,673	630,499

Credit quality of treasury and other investment securities, net

Consolidated

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
				(In Millions of Pesos)				
Credit grade								
Standard monitoring								
Due from BSP	268,827	-	-	268,827	223,989	-	-	223,989
Due from other banks	34,572	-	-	34,572	40,155	-	-	40,155
Interbank loans receivable and SPAR	30,852	-	-	30,852	30,245	-	-	30,245
Financial assets at FVTPL	21,146	-	-	21,146	37,140	-	-	37,140
Financial assets at FVOCI	131,390	-	-	131,390	126,851	-	-	126,851
Investment securities at amortized cost	338,678	-	-	338,678	244,666	-	-	244,666
Default								
Interbank loans receivable and SPAR	-	-	46	46	-	-	47	47
Gross carrying amount	825,465	-	46	825,511	703,046	-	47	703,093
Loss allowance	(6)	-	(46)	(52)	(13)	-	(41)	(54)
Carrying amount	825,459	-	-	825,459	703,033	-	6	703,039

Parent

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
				(In Millions of Pesos)				
Credit grade								
Standard monitoring								
Due from BSP	197,435	-	-	197,435	197,974	-	-	197,974
Due from other banks	27,734	-	-	27,734	36,605	-	-	36,605
Interbank loans receivable and SPAR	30,023	-	-	30,023	26,616	-	-	26,616
Financial assets at FVTPL	15,575	-	-	15,575	33,865	-	-	33,865
Financial assets at FVOCI	113,713	-	-	113,713	118,623	-	-	118,623
Investment securities at amortized cost	333,199	-	-	333,199	216,823	-	-	216,823
Default								
Interbank loans receivable and SPAR	-	-	46	46	-	-	47	47
Gross carrying amount	717,679	-	46	717,725	630,506	-	47	630,553
Loss allowance	(6)	-	(46)	(52)	(13)	-	(41)	(54)
Carrying amount	717,673	-	-	717,673	630,493	-	6	630,499

26.1.3.3 Other financial assets at amortized cost

Other financial assets at amortized cost that are exposed to credit risk are as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
Accounts receivable, net	1,367	1,662	5,369	1,342
Rental deposits	762	767	647	650
Other accrued interest and fees receivable	79	58	7	12
Others	130	61	98	34
	2,338	2,548	6,121	2,038

The carrying amounts of the above financial assets represent the BPI Group's maximum exposure to credit risk.

The BPI Group's other financial assets at amortized cost (shown under Other assets, net) generally arise from transactions with various unrated counterparties with good credit standing. The BPI Group applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss methodology for other financial assets.

26.1.3.4 Loan commitments

Credit risk exposures arising from undrawn loan commitments are as follows:

Consolidated

	2021			Total	2020			Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
	(In Millions of Pesos)							
Credit grade								
Standard monitoring	376,603	2,099	-	378,702	364,305	2,309	-	366,614
Special monitoring	15,239	-	-	15,239	10,152	-	-	10,152
Default	-	-	615	615	-	-	590	590
Gross amount	391,842	2,099	615	394,556	374,457	2,309	590	377,356
Loss allowance*	(546)	(75)	(126)	(747)	(760)	(119)	(80)	(959)
Carrying amount	391,296	2,024	489	393,809	373,697	2,190	510	376,397

*Included in "Miscellaneous liabilities" in Note 17

Parent

	2021			Total	2020			Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
	(In Millions of Pesos)							
Credit grade								
Standard monitoring	370,603	1,964	-	372,567	358,804	2,183	-	360,987
Special monitoring	14,955	-	-	14,955	9,934	-	-	9,934
Default	-	-	611	611	-	-	586	586
Gross amount	385,558	1,964	611	388,133	368,738	2,183	586	371,507
Loss allowance*	(534)	(68)	(126)	(728)	(738)	(110)	(79)	(927)
Carrying amount	385,024	1,896	485	387,405	368,000	2,073	507	370,580

*Included in "Miscellaneous liabilities" in Note 17

26.1.4 Credit impaired loans and advances

The BPI Group closely monitors collaterals held for financial assets considered to be credit-impaired (Stage 3), as it becomes more likely that the BPI Group will take possession of collateral to mitigate potential credit losses. Loans and advances that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

Consolidated

	2021			2020		
	Gross exposure	Impairment allowance	Net carrying amount	Gross exposure	Impairment allowance	Net carrying amount
	(In Millions of Pesos)					
Credit-impaired assets						
Corporate and SME loans	36,223	23,865	12,358	37,566	10,071	27,495
Retail loans	19,473	8,916	10,557	22,893	9,487	13,406
Total credit-impaired assets	55,696	32,781	22,915	60,459	19,558	40,901
Fair value of collateral	27,302			26,531		

Parent

	2021			2020		
	Gross exposure	Impairment allowance	Net carrying amount	Gross exposure	Impairment allowance	Net carrying amount
	(In Millions of Pesos)					
Credit-impaired assets						
Corporate and SME loans	33,577	21,866	11,711	33,922	8,353	25,569
Retail loans	4,199	3,623	576	5,267	4,406	861
Total credit-impaired assets	37,776	25,489	12,287	39,189	12,759	26,430
Fair value of collateral	15,534			12,493		

The BPI Group acquires assets by taking possession of collaterals held as security for loans and advances.

As at December 31, 2021, the BPI Group's foreclosed collaterals have carrying amount of P3,282 million (2020 - P2,971 million). The related foreclosed collaterals have aggregate fair value of P10,630 million (2020 - P9,494 million). Foreclosed collaterals include real estate (land, building, and improvements), auto and chattel. Repossessed properties are sold as soon as practicable and are classified as Assets held for sale in the statement of condition. In 2021, the Parent Bank realized a gain of P140 million (2020 - P53 million) from disposals of foreclosed collaterals with book value of P62 million (2020 - P148 million).

26.1.5 Loss allowance

The loss allowance recognized in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired in the period, and the consequent transfer between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognized during the year and releases for financial instruments derecognized during the year;
- Write-offs of allowances related to assets that were written off during the year;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs during the year;
- Impacts on the measurement of ECL due to changes made to models and assumptions; and
- Foreign exchange translations for assets denominated in foreign currencies and other movements.

The following tables summarize the changes in the loss allowance for loans and advances between the beginning and the end of the annual period. No movement analysis of allowance for impairment is presented for treasury and other investment debt securities and other financial assets subject to impairment as the related loss allowance is deemed insignificant for financial reporting purposes.

Consolidated

	Stage 1	Stage 2	Stage 3	
	12-month			
Corporate and SME loans	ECL	Lifetime ECL	Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2021	12,721	6,667	10,071	29,459
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(2,204)	1,770	1,261	827
Transfer from Stage 2	41	(1,194)	233	(920)
Transfer from Stage 3	1	5	(166)	(160)
New financial assets originated	3,802	-	-	3,802
Financial assets derecognized during the year	(2,802)	(3,108)	(675)	(6,585)
Changes in assumptions and other movements in provision	(787)	(1,134)	14,258	12,337
	(1,949)	(3,661)	14,911	9,301
Write-offs and other movements	546	(278)	(1,117)	(849)
Loss allowance, at December 31, 2021	11,318	2,728	23,865	37,911

	Stage 1	Stage 2	Stage 3	
	12-month			
Retail loans	ECL	Lifetime ECL	Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2021	4,282	3,530	9,487	17,299
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(904)	1,094	2,557	2,747
Transfer from Stage 2	193	(2,193)	1,350	(650)
Transfer from Stage 3	39	103	(608)	(466)
New financial assets originated	2,465	-	-	2,465
Financial assets derecognized during the year	(495)	(196)	(830)	(1,521)
Changes in assumptions and other movements in provision	(593)	(357)	1,839	889
	705	(1,549)	4,308	3,464
Write-offs and other movements	(20)	(11)	(4,879)	(4,910)
Loss allowance, at December 31, 2021	4,967	1,970	8,916	15,853

Parent

	Stage 1	Stage 2	Stage 3	
	12-month			
Corporate and SME loans	ECL	Lifetime ECL	Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2021	12,655	6,445	8,353	27,453
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(2,165)	1,758	1,156	749
Transfer from Stage 2	31	(1,154)	206	(917)
Transfer from Stage 3	-	5	(135)	(130)
New financial assets originated	3,727	-	-	3,727
Financial assets derecognized during the year	(2,737)	(2,955)	(430)	(6,122)
Changes in assumptions and other movements in provision	(702)	(1,121)	13,183	11,360
	(1,846)	(3,467)	13,980	8,667
Write-offs and other movements	(120)	(269)	(467)	(856)
Loss allowance, at December 31, 2021	10,689	2,709	21,866	35,264

Retail loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	(In Millions of Pesos)			
Loss allowance, at January 1, 2021	1,391	1,546	4,406	7,343
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(261)	589	1,276	1,604
Transfer from Stage 2	89	(982)	799	(94)
Transfer from Stage 3	1	3	(36)	(32)
New financial assets originated	109	-	-	109
Financial assets derecognized during the year	(24)	(59)	(395)	(478)
Changes in assumptions and other movements in provision	(244)	(176)	870	450
	(330)	(625)	2,514	1,559
Write-offs and other movements	(4)	(1)	(3,297)	(3,302)
Loss allowance, at December 31, 2021	1,057	920	3,623	5,600

Consolidated

Corporate and SME loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	(In Millions of Pesos)			
Loss allowance, at January 1, 2020	6,870	3,110	6,157	16,137
Less: Beginning balance of CTL	(249)	(39)	(325)	(613)
Adjusted loss allowance, at January 1, 2020	6,621	3,071	5,832	15,524
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(3,608)	5,046	2,827	4,265
Transfer from Stage 2	83	(589)	126	(380)
Transfer from Stage 3	-	-	-	-
New financial assets originated	6,920	-	-	6,920
Financial assets derecognized during the year	(1,375)	(1,108)	(391)	(2,874)
Changes in assumptions and other movements in provision	5,925	(110)	661	6,476
	7,945	3,239	3,223	14,407
Write-offs and other movements	(1,845)	357	1,016	(472)
Loss allowance, at December 31, 2020	12,721	6,667	10,071	29,459

Retail loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	(In Millions of Pesos)			
Loss allowance, at January 1, 2020	3,236	1,780	4,821	9,837
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(1,138)	2,697	5,362	6,921
Transfer from Stage 2	100	(1,014)	1,586	672
Transfer from Stage 3	3	33	(113)	(77)
New financial assets originated	2,000	-	-	2,000
Financial assets derecognized during the year	(68)	(99)	(314)	(481)
Changes in assumptions and other movements in provision	2,023	101	1,428	3,552
	2,920	1,718	7,949	12,587
Write-offs and other movements	(1,874)	32	(3,283)	(5,125)
Loss allowance, at December 31, 2020	4,282	3,530	9,487	17,299

Parent

Corporate and SME loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance, at January 1, 2020	5,972	2,990	4,809	13,771
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(3,409)	4,865	2,801	4,257
Transfer from Stage 2	81	(569)	126	(362)
Transfer from Stage 3	-	-	-	-
New financial assets originated	6,657	-	-	6,657
Financial assets derecognized during the year	(1,336)	(1,095)	(263)	(2,694)
Changes in assumptions and other movements in provision	5,929	(111)	302	6,120
	7,922	3,090	2,966	13,978
Write-offs and other movements	(1,239)	365	578	(296)
Loss allowance, at December 31, 2020	12,655	6,445	8,353	27,453

Retail loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance, at January 1, 2020	808	941	3,085	4,834
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(273)	1,186	3,004	3,917
Transfer from Stage 2	79	(646)	921	354
Transfer from Stage 3	2	1	(42)	(39)
New financial assets originated	201	-	-	201
Financial assets derecognized during the year	(15)	(47)	(227)	(289)
Changes in assumptions and other movements in provision	589	111	1,410	2,110
	583	605	5,066	6,254
Write-offs and other movements	-	-	(3,745)	(3,745)
Loss allowance, at December 31, 2020	1,391	1,546	4,406	7,343

Critical accounting estimate and judgment - Measurement of expected credit loss for loans and advances

The measurement of the expected credit loss (ECL) for loans and advances is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). The explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 31.3.2.2.

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- determining criteria for SICR;
- choosing appropriate models and assumptions for the measurement of ECL;
- establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- establishing groups of similar financial assets for the purposes of measuring ECL.

Forward-looking information incorporated in the ECL models

Three distinct macroeconomic scenarios (baseline, upside and downside) are considered in the BPI Group's estimation of expected credit losses in Stage 1 and Stage 2. These scenarios are based on assumptions supported by economic theories and historical experience. The downside scenario reflects a negative macroeconomic event occurring within the first 12 months, with conditions deteriorating for up to two years, followed by a recovery for the remainder of the period. This scenario is grounded in historical experience and assumes a monetary policy response that returns the economy to a long-run, sustainable growth rate within the forecast period. The probability of each scenario is determined using expert judgment and recession probability tools provided by reputable external service providers. The baseline case incorporates the BPI Group's outlook both for the domestic and global economy. The upside and downside scenarios take into account certain adjustments that will lead to a more positive or negative economic outcome, respectively.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes is likewise considered, if material.

The BPI Group has performed historical analyses and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. The most significant period-end assumptions used for the ECL estimate are set out below. The scenarios “base”, “upside” and “downside” were used for all portfolios.

At December 31, 2021

	Base Scenario		Upside Scenario		Downside Scenario	
	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)
Real GDP growth (%)	7.4	6.3	8.4	7.3	4.4	3.3
Inflation rate (%)	3.5	3.2	2.5	2.2	4.5	4.2
BVAL 5Y (%)	4.6	3.7	4.3	3.4	6.1	5.2
US Treasury 5Y (%)	1.5	2.8	1.2	2.3	1.8	3.0
Exchange rate	52.500	55.234	51.921	53.928	53.095	56.587

At December 31, 2020

	Base Scenario		Upside Scenario		Downside Scenario	
	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)
Real GDP growth (%)	7.4	5.9	8.4	6.9	5.4	3.9
Inflation rate (%)	3.0	2.5	2.0	1.5	4.7	3.5
BVAL 5Y (%)	3.0	3.6	2.5	3.1	5.5	6.1
US Treasury 5Y (%)	0.5	0.5	0.7	0.7	0.3	0.3
Exchange rate	49.848	53.780	48.375	49.672	51.340	58.171

Sensitivity analysis

The loan portfolios have different sensitivities to movements in MEVs, so the above three scenarios have varying impact on the expected credit losses of BPI Group’s portfolios. The allowance for impairment is calculated as the weighted average of expected credit losses under the baseline, upside and downside scenarios. The impact of weighting these multiple scenarios was an increase in the allowance for impairment by P42 million as at December 31, 2021 from the baseline scenario (2020 - P23 million).

Transfers between stages

Transfers from Stage 1 and Stage 2 are based on the assessment of SICR from initial recognition. The impact of moving from 12 months expected credit losses to lifetime expected credit losses, or vice versa, varies by product and is dependent on the expected remaining life at the date of the transfer. Stage transfers may result in significant fluctuations in expected credit losses. Assuming all Stage 2 accounts are considered as Stage 1, allowance for impairment would have decreased by P1,137 million as at December 31, 2021 (2020 - P1,839 million).

26.1.6 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 (December 31, 2021)

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Allowance	Total
	(In Millions of Pesos)						
Due from BSP	268,827	-	-	-	-	-	268,827
Due from other banks	34,572	-	-	-	-	-	34,572
Interbank loans receivable and SPAR	30,898	-	-	-	-	(46)	30,852
Financial assets at FVTPL	11,306	113	11	-	9,716	-	21,146
Financial assets at FVOCI	2,609	1,049	2,509	477	124,746	-	131,390
Investment securities at amortized cost	12,321	3,960	3,114	2,420	316,863	(6)	338,672
Loans and advances	123,701	123,621	238,971	392,168	651,830	(53,764)	1,476,527
Other financial assets	-	-	-	-	3,262	(924)	2,338
At December 31, 2021	484,234	128,743	244,605	395,065	1,106,417	(54,740)	2,304,324

Consolidated (December 31, 2020)

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Allowance	Total
	(In Millions of Pesos)						
Due from BSP	223,989	-	-	-	-	-	223,989
Due from other banks	40,155	-	-	-	-	-	40,155
Interbank loans receivable and SPAR	30,292	-	-	-	-	(41)	30,251
Financial assets at FVTPL	7,199	-	-	-	29,941	-	37,140
Financial assets at FVOCI	10,691	3,307	-	1,881	110,972	-	126,851
Investment securities at amortized cost	43,342	1,784	2,081	1,083	196,376	(13)	244,653
Loans and advances	129,101	116,525	217,675	369,704	621,166	(46,758)	1,407,413
Other financial assets	-	-	-	-	3,531	(983)	2,548
At December 31, 2020	484,769	121,616	219,756	372,668	961,986	(47,795)	2,113,000

Parent Bank (December 31, 2021)

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Allowance	Total
	(In Millions of Pesos)						
Due from BSP	197,435	-	-	-	-	-	197,435
Due from other banks	27,734	-	-	-	-	-	27,734
Interbank loans receivable and SPAR	30,069	-	-	-	-	(46)	30,023
Financial assets at FVTPL	8,547	-	11	-	7,017	-	15,575
Financial assets at FVOCI	1,249	1,049	2,509	477	108,429	-	113,713
Investment securities at amortized cost	11,723	3,004	2,956	2,420	313,096	(6)	333,193
Loans and advances	122,757	69,347	236,226	229,964	615,622	(40,864)	1,233,052
Other financial assets	-	-	-	-	6,874	(753)	6,121
At December 31, 2021	399,514	73,400	241,702	232,861	1,051,038	(41,669)	1,956,846

Parent Bank (December 31, 2020)

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Allowance	Total
	(In Millions of Pesos)						
Due from BSP	197,974	-	-	-	-	-	197,974
Due from other banks	36,605	-	-	-	-	-	36,605
Interbank loans receivable and SPAR	26,663	-	-	-	-	(41)	26,622
Financial assets at FVTPL	5,081	-	-	-	28,784	-	33,865
Financial assets at FVOCI	10,321	3,307	-	1,881	103,114	-	118,623
Investment securities at amortized cost	34,749	1,185	1,743	1,083	178,063	(13)	216,810
Loans and advances	127,929	61,909	215,238	218,201	586,590	(34,796)	1,175,071
Other financial assets	-	-	-	-	2,860	(822)	2,038
At December 31, 2020	439,322	66,401	216,981	221,165	899,411	(35,672)	1,807,608

26.1.7 Provision for (reversal of) credit and impairment losses

The BPI Group's provision for (reversal of) credit and impairment losses are attributable to the following accounts:

	Notes	Consolidated			Parent		
		2021	2020	2019	2021	2020	2019
		(In Millions of Pesos)					
Loans and advances	10,26	12,765	26,994	5,852	10,226	20,232	5,014
Assets held for sale		44	12	(197)	20	(78)	(240)
Interbank loans receivable and SPAR	5	5	1	(11)	5	1	(9)
Investment securities at amortized cost	9	(7)	13	(2)	(7)	13	(2)
Undrawn loan commitments	26,32	(212)	309	(101)	(199)	308	(103)
Impairment on equity investment	12	-	-	-	60	313	-
Accounts receivable	14	83	509	30	215	452	11
Other assets		457	162	(9)	271	153	(5)
		13,135	28,000	5,562	10,591	21,394	4,666

26.2 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 management in BPI covers managing exposures to trading risk, foreign exchange risk, and interest rate risk in the banking book.

Market risk management is incumbent on the BOD through the RMC. At the management level, the BPI Group's market risk exposures are managed by the RMO, headed by the Parent Bank's CRO who reports directly to the RMC. In order to effectively manage market risk, the Bank has well established policies and procedures approved by the RMC and confirmed by the Executive Committee/BOD. In addition, the 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 BPI's market-making and risk-taking activities. The BPI Group also has derivatives exposures in interest rate swaps, currency swaps and structured notes as part of its trading and position taking activities. Non-trading portfolios include positions arising from core banking activities, which includes the BPI Group's retail and commercial banking assets and liabilities.

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 BPI Group's positions. To control the risk, the RMC sets risk limits for trading portfolios which are consistent with the BPI Group's goals, objectives, risk appetite, and strategies.

Stress tests indicate the potential losses that could arise in extreme conditions that would have detrimental effect to the BPI Group's positions. The BPI Group periodically performs price stress testing to assess the BPI Group's condition on assumed stress scenarios. Contingency plans are frequently reviewed to ensure the BPI Group'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	
	2021	2020	2021	2020
		(In Millions of Pesos)		
Local fixed-income	76	63	75	62
Foreign fixed-income	94	68	85	58
Foreign exchange	105	52	6	5
Derivatives	180	100	147	100
Equity securities	21	31	-	-
Mutual fund	24	-	-	-
	500	314	313	225

26.2.1 Foreign exchange risk

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

The BPI Group takes on exposure to the effects of fluctuations in the prevailing exchange rates on its foreign currency financial position and cash flows. The table below summarizes the BPI Group's exposure to more material foreign currency exchange rate risk primarily in US Dollar (USD), shown in their Peso equivalent at December 31:

Consolidated

	2021			2020		
	USD	Others*	Total	USD	Others*	Total
	(In Millions of Pesos)					
Financial assets						
Cash and other cash items	3,195	203	3,398	2,440	410	2,850
Due from other banks	31,044	1,896	32,940	32,976	4,342	37,318
Interbank loans receivable and SPAR	13,158	620	13,778	9,353	-	9,353
Financial assets at FVTPL	5,758	140	5,898	8,009	1,154	9,163
Financial assets at FVOCI - debt securities	47,979	1,568	49,547	39,691	1,046	40,737
Investment securities at amortized cost	111,205	1,695	112,900	102,826	1,098	103,924
Loans and advances, net	113,229	6,450	119,679	120,709	10,406	131,115
Others financial assets	2,723	9	2,732	3,274	113	3,387
Total financial assets	328,291	12,581	340,872	319,278	18,569	337,847
Financial liabilities						
Deposit liabilities	257,513	7,713	265,226	238,496	11,323	249,819
Derivative financial liabilities	1,846	204	2,050	3,209	165	3,374
Bills payable	48,664	-	48,664	66,038	5,998	72,036
Due to BSP and other banks	609	-	609	868	-	868
Manager's checks and demand drafts outstanding	444	37	481	235	5	240
Other financial liabilities	5,938	311	6,249	3,960	125	4,085
Accounts payable	199	2	201	136	85	221
Total financial liabilities	315,213	8,267	323,480	312,942	17,701	330,643
Net on-balance sheet position	13,078	4,314	17,392	6,336	868	7,204

*Others category includes financial instruments denominated in JPY, EUR and GBP.

Parent Bank

	2021			2020		
	USD	Others*	Total	USD	Others*	Total
	(In Millions of Pesos)					
Financial assets						
Cash and other cash items	3,031	203	3,234	2,267	405	2,672
Due from other banks	23,616	1,513	25,129	31,912	3,396	35,308
Interbank loans receivable and SPAR	13,158	-	13,158	9,353	-	9,353
Financial assets at FVTPL	3,788	128	3,916	7,639	1,094	8,733
Financial assets at FVOCI - debt securities	38,659	1,568	40,227	36,001	1,027	37,028
Investment securities at amortized cost	107,977	-	107,977	90,870	136	91,006
Loans and advances, net	111,401	5,283	116,684	117,208	8,990	126,198
Others financial assets	11,581	2,664	14,245	8,417	145	8,562
Total financial assets	313,211	11,359	324,570	303,667	15,193	318,860
Financial liabilities						
Deposit liabilities	240,939	7,585	248,524	224,134	9,526	233,660
Derivative financial liabilities	1,770	204	1,974	3,209	165	3,374
Bills payable	45,758	-	45,758	64,567	5,415	69,982
Due to BSP and other banks	470	-	470	868	-	868
Manager's checks and demand drafts outstanding	441	37	478	232	5	237
Other financial liabilities	14,817	2,950	17,767	3,797	8,874	12,671
Accounts payable	199	2	201	60	3	63
Total financial liabilities	304,394	10,778	315,172	296,867	23,988	320,855
Net on-balance sheet position	8,817	581	9,398	6,800	(8,795)	(1,995)

*Others category includes financial instruments denominated in JPY, EUR and GBP.

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

Year	Change in currency	Effect on pre-tax income	
		Consolidated	Parent
		(In millions of Pesos)	
2021	+/- 2.19%	+/- 286	+/- 193
2020	+/- 2.29%	+/- 589	+/- 656

26.2.2 Interest rate risk

Interest rate risk is the risk that cash flows or fair value of a financial instrument will fluctuate due to movements in market interest rates.

Interest rate risk in the banking book (IRRBB)

IRRBB is the current and prospective risk to the BPI Group's capital and earnings arising from the adverse movements in interest rates that affect its banking book positions (core banking activities). The BPI Group is exposed to re-pricing risk arising from financial assets and liabilities that have different maturities and are re-priced taking into account the prevailing market interest rates. Excessive levels of interest rate risks in the banking book can pose a significant threat to the BPI Group's earnings and capital base.

The BPI Group employs two methods to measure the potential impact of interest rate risk in the banking book: (i) one that focuses on the impact on economic value of the future cash flows in the banking book due to changes in interest rates - Balance Sheet VaR (BSVaR), and (ii) one that focuses on the potential deterioration in net interest earnings - Earnings-at-Risk (EaR). The RMC sets limits on the two interest rate risk metrics which are monitored regularly by the Market and Liquidity Risk Management Division of the RMO. The EaR and BSVaR are built on the interest rate/repricing gap profile of the bank. The interest rate gap is the difference between the amount of interest rate sensitive assets and liabilities and off-balance sheet items. It distributes the balance sheet accounts according to their contractual maturity if fixed, or repricing date if floating. For accounts that do not have defined maturity or repricing schedules (e.g. non-maturity deposits), behavioural models are employed to determine their repricing buckets.

Earnings-at-Risk (EaR)

The EaR is built on repricing profile of the BPI Group and considers principal payments only. The BPI Group projects interest inflows from its financial assets and interest outflows from its financial liabilities in the next 12 months as earnings are affected when interest rates move against the BPI Group's position. As of December 31, 2021, the net interest income impact of movement in interest rates resulted to a decrease of P210 million (2020 - P5,174 million increase) for the whole BPI Group and decrease of P204 million (2020 - P4,614 million increase) for the Parent Bank.

BSVaR

The BS VaR model is also built on repricing gap or the difference between the amount of rate-sensitive financial assets and liabilities which considers both principal and interest payments. It is the present value of the BPI Group's expected net cash flows due to changes in interest rates. As at December 31, 2021, the average monthly BSVaR for the banking book stood at P24,497 million (2020 - P21,251 million) for the whole BPI Group and P20,806 million (2020 - P17,397 million) for the Parent Bank.

The IRRBB levels are closely monitored against RMC-approved limits and results are reported and discussed regularly at the Management level through the Asset and Liability Committee (ALCO) and at the Board level through the Risk Management Committee (RMC). The BPI Group manages interest rate exposures related to its assets and liabilities through a transfer-pricing system administered by Treasury. Investment securities and interest rate derivatives are also used to hedge interest rate risk and manage repricing gaps in the balance sheet.

The BPI Group also conducts price stress tests in the banking book and EaR stress tests for a variety of interest rate shock scenarios to identify the impact of adverse movements in interest rates on the BPI Group's economic value and earnings. The design of the price and EaR stress tests include steepening and flattening yield curves, parallel up/down and short rate up/down shocks. The interest rate shocks applied is calibrated for all major currencies in which the BPI Group has significant positions. The results of the stress test are reported to the RMC and Senior Management and are integrated into the overall risk management framework of the BPI Group.

The BPI Group has established comprehensive risk management framework (e.g., policies, procedures, risk limits structures) supported by a robust risk management system. Furthermore, the risk management process, including its various components, is subject to periodic independent review (i.e. internal audit and model validation) and consistently calibrated to ensure accuracy, relevance, propriety and timeliness of data and assumptions employed. The assumptions and parameters used in building these metrics are properly documented. Any changes in the methodology and assumptions used are duly approved by the Chief Risk Officer and noted by the RMC.

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

Consolidated (December 31, 2021)

	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, 2021					
Financial Assets					
Cash and other cash items	-	-	-	35,143	35,143
Due from BSP	-	-	-	268,827	268,827
Due from other banks	-	-	-	34,572	34,572
Interbank loans receivable and SPAR	-	-	-	30,852	30,852
Financial assets at FVTPL	406	444	971	19,325	21,146
Financial assets at FVOCI	-	-	-	131,390	131,390
Investment securities at amortized cost	-	-	-	338,672	338,672
Loans and advances, net	487,616	311,336	568,296	109,279	1,476,527
Other financial assets	-	-	-	2,338	2,338
Total financial assets	488,022	311,780	569,267	970,398	2,339,467
Financial Liabilities					
Deposit liabilities	1,087,175	370,115	497,857	-	1,955,147
Derivative financial liabilities	395	472	870	1,895	3,632
Bills payable and other borrowed funds	1,886	1,020	-	92,133	95,039
Due to BSP and other banks	-	-	-	953	953
Manager's checks and demand drafts outstanding	-	-	-	6,931	6,931
Other financial liabilities	-	-	-	7,256	7,256
Total financial liabilities	1,089,456	371,607	498,727	109,168	2,068,958
Total interest gap	(601,434)	(59,827)	70,540	861,230	270,509

Consolidated (December 31, 2020)

	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, 2020					
Financial Assets					
Cash and other cash items	-	-	-	37,176	37,176
Due from BSP	-	-	-	223,989	223,989
Due from other banks	-	-	-	40,155	40,155
Interbank loans receivable and SPAR	-	-	-	30,251	30,251
Financial assets at FVTPL	188	1,790	1,108	34,054	37,140
Financial assets at FVOCI	-	-	-	126,851	126,851
Investment securities at amortized cost	-	-	-	244,653	244,653
Loans and advances, net	490,534	218,351	590,879	107,649	1,407,413
Other financial assets	-	-	-	2,548	2,548
Total financial assets	490,722	220,141	591,987	847,326	2,150,176
Financial Liabilities					
Deposit liabilities	731,596	407,805	576,776	-	1,716,177
Derivative financial liabilities	193	1,752	1,207	2,505	5,657
Bills payable and other borrowed funds	2,054	9,571	-	140,322	151,947
Due to BSP and other banks	-	-	-	1,491	1,491
Manager's checks and demand drafts outstanding	-	-	-	7,108	7,108
Other financial liabilities	-	-	-	10,694	10,694
Total financial liabilities	733,843	419,128	577,983	162,120	1,893,074
Total interest gap	(243,121)	(198,987)	14,004	685,206	257,102

Parent Bank (December 31, 2021)

	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, 2021					
Financial Assets					
Cash and other cash items	-	-	-	33,868	33,868
Due from BSP	-	-	-	197,435	197,435
Due from other banks	-	-	-	27,734	27,734
Interbank loans receivable and SPAR	-	-	-	30,023	30,023
Financial assets at FVTPL	406	444	971	13,754	15,575
Financial assets at FVOCI	-	-	-	113,713	113,713
Investment securities at amortized cost	-	-	-	333,193	333,193
Loans and advances, net	424,674	238,764	524,511	45,103	1,233,052
Other financial assets	-	-	-	6,121	6,121
Total financial assets	425,080	239,208	525,482	800,944	1,990,714
Financial Liabilities					
Deposit liabilities	957,669	288,826	429,290	-	1,675,785
Derivative financial liabilities	395	472	870	1,808	3,545
Bills payable and other borrowed funds	-	-	-	82,550	82,550
Due to BSP and other banks	-	-	-	814	814
Manager's checks and demand drafts outstanding	-	-	-	5,243	5,243
Other financial liabilities	-	-	-	4,974	4,974
Total financial liabilities	958,064	289,298	430,160	95,389	1,772,911
Total interest gap	(530,880)	(50,090)	95,323	705,654	217,803

Parent Bank (December 31, 2020)

	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, 2020					
Financial Assets					
Cash and other cash items	-	-	-	35,912	35,912
Due from BSP	-	-	-	197,974	197,974
Due from other banks	-	-	-	36,605	36,605
Interbank loans receivable and SPAR	-	-	-	26,622	26,622
Financial assets at FVTPL	188	1,791	1,108	30,778	33,865
Financial assets at FVOCI	-	-	-	118,623	118,623
Investment securities at amortized cost	-	-	-	216,810	216,810
Loans and advances, net	431,004	161,565	544,112	38,390	1,175,071
Other financial assets	-	-	-	2,038	2,038
Total financial assets	431,192	163,356	545,220	703,752	1,843,520
Financial Liabilities					
Deposit liabilities	646,179	331,517	492,514	-	1,470,210
Derivative financial liabilities	193	1,752	1,207	2,505	5,657
Bills payable and other borrowed funds	-	9,571	-	130,777	140,348
Due to BSP and other banks	-	-	-	1,491	1,491
Manager's checks and demand drafts outstanding	-	-	-	5,447	5,447
Other financial liabilities	-	-	-	5,924	5,924
Total financial liabilities	646,372	342,840	493,721	146,144	1,629,077
Total interest gap	(215,180)	(179,484)	51,499	557,608	214,443

26.3 Liquidity risk

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

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

26.3.1 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 and ratios against internal and regulatory requirements;
- 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 (Note 26.3.2) and the expected collection date of the financial assets. Sources of liquidity are regularly reviewed by the BPI Group to maintain a wide diversification by currency, geography, counterparty, product and term.

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.

Liquidity Coverage Ratio (LCR)

Pursuant to BSP Circular No. 905 issued in 2016, the Parent Bank is required to hold and maintain an adequate level of unencumbered High Quality Liquid Assets (HQLA) that are sufficient to meet its estimated total cash outflows over a 30 calendar-day period of liquidity stress. The LCR is the ratio of HQLAs to total net cash outflows which should be no lower than 100% on a daily basis. It is designed to promote short-term resilience of the BPI Group's liquidity risk profile to withstand significant liquidity shocks that may last over 30 calendar days. HQLA represents the Parent Bank's stock of liquid assets that qualify for inclusion in the LCR which consists mainly of cash, regulatory reserves and unencumbered high-quality liquid securities. HQLAs therefore, serve as defense against potential stress events.

The main drivers of the Parent Bank's LCR comprise the changes in the total stock of HQLA as well as changes in net cash outflows related to deposits, unsecured borrowings, committed and/or uncommitted facilities, derivatives cash flows and cash inflows from maturing corporate, business and retail loans, among others. Cash outflows from derivatives contracts are effectively offset by derivatives cash inflows. These two are accorded 100% outflow and inflow factors, respectively.

Net Stable Funding Ratio (NSFR)

On January 1, 2019, the Parent Bank adopted BSP Circular No. 1007 issued in 2018 regarding the NSFR requirement. The NSFR is aimed at strengthening the Parent Bank's long-term resilience by maintaining a stable funding in relation to its assets and off-balance sheet items as well as to limit the maturity transformation risk of the BPI Group. The NSFR is expressed as the ratio of available stable funding and the required stable funding and complements the LCR as it takes a longer view of the BPI Group's liquidity risk profile. The BPI Group's capital, retail deposits and long-term debt are considered as stable funding sources whereas the BPI Group's assets including, but not limited to, performing and non-performing loans and receivables, HQLA and non-HQLA securities as well as off-balance items form part of the required stable funding. The Parent Bank's solo and consolidated NSFRs are well-above the regulatory minimum of 100%.

The Parent Bank maintains a well-diversified funding base and has a substantial amount of core deposits, thereby avoiding undue concentrations by counterparty, maturity, and currency. The Parent Bank manages its liquidity position through asset-liability management activities supported by a well-developed funds management practice as well as a sound risk management system. As part of risk oversight, the Parent Bank monitors its liquidity risk on a daily basis, in terms of single currency and significant currencies, to ensure it is operating within the risk appetite set by the BOD and to assess ongoing compliance with the minimum requirement of the liquidity ratios. Furthermore, the Parent Bank has a set of policies and escalation procedures in place that govern its day-to-day risk monitoring and reporting processes.

The table below shows the actual liquidity metrics of the BPI Group and the Parent Bank:

	Consolidated		Parent	
	2021	2020	2021	2020
Liquidity coverage ratio	220.68%	231.86%	221.67%	240.40%
Net stable funding ratio	154.88%	153.58%	152.11%	153.13%
Leverage ratio	10.63%	10.92%	10.22%	10.61%
Total exposure measure	2,471,163	2,262,656	2,085,573	1,924,061

The decline in the Parent Bank's LCR was driven by higher volumes of operational deposits. Cash, reserves and due from BSP make up 38% of the total stock of HQLA for the year ended December 31, 2021.

26.3.2 Maturity profile - Non-derivative financial instruments

The tables below present the maturity profile of non-derivative financial instruments based on undiscounted cash flows including future 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 (December 31, 2021)

	Up to 1 year	Over 1 up to 3		Total
		years	Over 3 years	
(In Millions of Pesos)				
As at December 31, 2021				
Financial Assets				
Cash and other cash items	35,143	-	-	35,143
Due from BSP	268,866	-	-	268,866
Due from other banks	34,572	-	-	34,572
Interbank loans receivable and SPAR	30,859	71	-	30,930
Financial assets at FVTPL	13,301	1,182	3,694	18,177
Financial assets at FVOCI	37,499	36,415	69,980	143,894
Investment securities at amortized cost	45,432	105,717	240,363	391,512
Loans and advances, net	521,202	550,196	458,500	1,529,898
Other financial assets	2,338	-	-	2,338
Total financial assets	989,212	693,581	772,537	2,455,330
Financial Liabilities				
Deposit liabilities	1,086,489	366,365	491,971	1,944,825
Bills payable and other borrowed funds	48,679	47,391	-	96,070
Due to BSP and other banks	953	-	-	953
Manager's checks and demand drafts outstanding	6,931	-	-	6,931
Lease liabilities	2,081	3,358	2,911	8,350
Other financial liabilities	7,256	-	-	7,256
Total financial liabilities	1,152,389	417,114	494,882	2,064,385
Total maturity gap	(163,177)	276,467	277,655	390,945

Consolidated (December 31, 2020)

	Up to 1 year	Over 1 up to 3		Total
		years	Over 3 years	
(In Millions of Pesos)				
As at December 31, 2020				
Financial Assets				
Cash and other cash items	37,176	-	-	37,176
Due from BSP	223,989	-	-	223,989
Due from other banks	40,155	-	-	40,155
Interbank loans receivable and SPAR	30,345	14	87	30,446
Financial assets at FVTPL	21,637	1,010	11,093	33,740
Financial assets at FVOCI	45,333	19,051	70,602	134,986
Investment securities at amortized cost	53,430	84,155	123,368	260,953
Loans and advances, net	621,097	318,461	605,102	1,544,660
Other financial assets	2,548	-	-	2,548
Total financial assets	1,075,710	422,691	810,252	2,308,653
Financial Liabilities				
Deposit liabilities	731,729	408,122	577,286	1,717,137
Bills payable and other borrowed funds	84,810	25,197	43,132	153,139
Due to BSP and other banks	1,491	-	-	1,491
Manager's checks and demand drafts outstanding	7,108	-	-	7,108
Lease liabilities	2,098	3,299	4,278	9,675
Other financial liabilities	10,694	-	-	10,694
Total financial liabilities	837,930	436,618	624,696	1,899,244
Total maturity gap	237,780	(13,927)	185,556	409,409

Parent Bank (December 31, 2021)

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
As at December 31, 2021				
Financial Assets				
Cash and other cash items	33,868	-	-	33,868
Due from BSP	197,445	-	-	197,445
Due from other banks	27,734	-	-	27,734
Interbank loans receivable and SPAR	30,030	71	-	30,101
Financial assets at FVTPL	8,915	344	3,393	12,652
Financial assets at FVOCI	29,982	33,274	61,710	124,966
Investment securities at amortized cost	44,439	105,013	235,943	385,395
Loans and advances, net	488,979	436,227	348,710	1,273,916
Other financial assets, net	6,121	-	-	6,121
Total financial assets	867,513	574,929	649,756	2,092,198
Financial Liabilities				
Deposit liabilities	957,211	288,208	426,338	1,671,757
Bills payable and other borrowed funds	37,003	46,371	-	83,374
Due to BSP and other banks	814	-	-	814
Manager's checks and demand drafts outstanding	5,243	-	-	5,243
Lease liabilities	1,463	2,554	2,634	6,651
Other financial liabilities	4,974	-	-	4,974
Total financial liabilities	1,006,708	337,133	428,972	1,772,813
Total maturity gap	(139,195)	237,796	220,784	319,385

Parent Bank (December 31, 2020)

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
As at December 31, 2020				
Financial Assets				
Cash and other cash items	35,912	-	-	35,912
Due from BSP	197,974	-	-	197,974
Due from other banks	36,605	-	-	36,605
Interbank loans receivable and SPAR	26,716	14	87	26,817
Financial assets at FVTPL	18,566	915	11,055	30,536
Financial assets at FVOCI	43,863	18,633	63,680	126,176
Investment securities at amortized cost	39,940	79,680	112,647	232,267
Loans and advances, net	556,706	232,501	428,088	1,217,295
Other financial assets, net	2,038	-	-	2,038
Total financial assets	958,320	331,743	615,557	1,905,620
Financial Liabilities				
Deposit liabilities	646,279	331,570	492,702	1,470,551
Bills payable and other borrowed funds	82,343	14,995	43,132	140,470
Due to BSP and other banks	1,491	-	-	1,491
Manager's checks and demand drafts outstanding	5,447	-	-	5,447
Lease liabilities	1,676	2,469	3,765	7,910
Other financial liabilities	5,924	-	-	5,924
Total financial liabilities	743,160	349,034	539,599	1,631,793
Total maturity gap	215,160	(17,291)	75,958	273,827

26.3.3 Maturity profile - Derivative instruments

(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 Bank

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2021	(In Millions of Pesos)			
Interest rate swap contracts - held for trading				
- Inflow	406	444	971	1,821
- Outflow	(395)	(472)	(871)	(1,738)
- Net inflow	11	(28)	100	83
Non-deliverable forwards and swaps - held for trading				
- Inflow	167	30	-	197
- Outflow	(34)	(167)	(14)	(215)
- Net outflow	133	(137)	(14)	(18)
2020	(In Millions of Pesos)			
Interest rate swap contracts - held for trading				
- Inflow	188	1,792	1,108	3,088
- Outflow	(193)	(1,752)	(1,207)	(3,152)
- Net inflow	(5)	40	(99)	(64)
Non-deliverable forwards and swaps - held for trading				
- Inflow	13	-	-	13
- Outflow	(679)	(794)	(287)	(1,760)
- Net outflow	(666)	(794)	(287)	(1,747)

(b) Derivatives settled on a gross basis

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

Consolidated

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2021	(In Millions of Pesos)			
Foreign exchange derivatives - held for trading				
- Inflow	1,449	34	41	1,524
- Outflow	(1,679)	-	-	(1,679)
- Net inflow	(230)	34	41	(155)
Foreign exchange derivatives - held for hedging				
- Inflow	-	-	-	-
- Outflow	-	-	-	-
- Net outflow	-	-	-	-

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2020				
	(In Millions of Pesos)			
Foreign exchange derivatives - held for trading				
- Inflow	1,168	188	42	1,398
- Outflow	(740)	(1)	(4)	(745)
- Net inflow	428	187	38	653
Foreign exchange derivatives - held for hedging				
- Inflow	278	-	-	278
- Outflow	-	-	-	-
- Net outflow	278	-	-	278

Parent Bank

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2021				
	(In Millions of Pesos)			
Foreign exchange derivatives - held for trading				
- Inflow	1,426	34	41	1,501
- Outflow	(1,602)	-	-	(1,602)
- Net inflow	(176)	34	41	(101)
Foreign exchange derivatives - held for hedging				
- Inflow	-	-	-	-
- Outflow	-	-	-	-
- Net outflow	-	-	-	-

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2020				
	(In Millions of Pesos)			
Foreign exchange derivatives - held for trading				
- Inflow	1,106	188	42	1,336
- Outflow	(740)	(1)	(4)	(745)
- Net inflow	366	187	38	591
Foreign exchange derivatives - held for hedging				
- Inflow	278	-	-	278
- Outflow	-	-	-	-
- Net outflow	278	-	-	278

26.4 Fair value measurement

The following tables present the carrying value of assets and liabilities and the level of fair value hierarchy within which the fair value measurements are categorized:

26.4.1 Assets and liabilities measured at fair value on a recurring or non-recurring basis

Consolidated (December 31, 2021)

	Carrying Amount	Fair value		Total
		Level 1	Level 2	
(In Millions of Pesos)				
<i>Recurring measurements:</i>				
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	3,553	-	3,553	3,553
Trading assets				
- Debt securities	17,593	14,784	2,809	17,593
- Equity securities	188	188	-	188
Financial assets at FVOCI				
- Debt securities	131,390	131,390	-	131,390
- Equity securities	3,351	1,982	1,369	3,351
	156,075	148,344	7,731	156,075
Financial liabilities				
Derivative financial liabilities	3,632	-	3,632	3,632
<i>Non-recurring measurements</i>				
Assets held for sale, net	3,282	-	10,630	10,630

Consolidated (December 31, 2020)

	Carrying Amount	Fair value		Total
		Level 1	Level 2	
(In Millions of Pesos)				
<i>Recurring measurements:</i>				
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	4,788	-	4,788	4,788
Trading assets				
- Debt securities	32,352	30,307	2,045	32,352
- Equity securities	70	70	-	70
Financial assets at FVOCI				
- Debt securities	126,851	126,765	86	126,851
- Equity securities	3,335	1,784	1,551	3,335
	167,396	158,926	8,470	167,396
Financial liabilities				
Derivative financial liabilities	5,657	-	5,657	5,657
<i>Non-recurring measurements</i>				
Assets held for sale, net	2,971	-	9,494	9,494

Parent Bank (December 31, 2021)

	Carrying Amount	Fair value		Total
		Level 1	Level 2	
(In Millions of Pesos)				
<i>Recurring measurements</i>				
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	3,520	-	3,520	3,520
Trading assets - debt securities	12,055	12,055	-	12,055
Financial assets at FVOCI				
- Debt securities	113,713	113,713	-	113,713
- Equity securities	1,828	1,517	311	1,828
	131,116	127,285	3,831	131,116
Financial liabilities				
Derivative financial liabilities	3,545	-	3,545	3,545
<i>Non-recurring measurements</i>				
Assets held for sale, net	505	-	3,866	3,866

Parent Bank (December 31, 2020)

	Carrying Amount	Fair value		Total
		Level 1	Level 2	
(In Millions of Pesos)				
<i>Recurring measurements</i>				
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	4,716	-	4,716	4,716
Trading assets - debt securities	29,149	29,149	-	29,149
Financial assets at FVOCI				
- Debt securities	118,623	118,623	-	118,623
- Equity securities	1,677	1,370	307	1,677
	154,165	149,142	5,023	154,165
Financial liabilities				
Derivative financial liabilities	5,657	-	5,657	5,657
<i>Non-recurring measurements</i>				
Assets held for sale, net	357	-	3,439	3,439

There are no assets and liabilities whose fair values fall under the Level 3 category as at December 31, 2021 and 2020. Likewise, there were no transfers between Level 1 and Level 2 during the years ended December 31, 2021 and 2020.

26.4.2 Fair value disclosures of assets and liabilities not measured at fair value

Consolidated (December 31, 2021)

	Carrying Amount	Fair value		Total
		Level 1	Level 2	
(In Millions of Pesos)				
Financial assets				
Cash and other cash items	35,143	-	35,143	35,143
Due from BSP	268,827	-	268,827	268,827
Due from other banks	34,572	-	34,572	34,572
Interbank loans receivable and SPAR, net	30,852	-	30,852	30,852
Investment securities at amortized cost, net	338,672	339,189	-	339,189
Loans and advances, net	1,476,527	-	1,524,826	1,524,826
Other financial assets	2,338	-	2,338	2,338
Financial liabilities				
Deposit liabilities	1,944,825	-	1,944,825	1,944,825
Bills payable and other borrowed funds	95,039	82,550	12,695	95,245
Due to BSP and other banks	953	-	953	953
Manager's checks and demand drafts outstanding	6,931	-	6,931	6,931
Other financial liabilities	7,256	-	7,256	7,256
Non-financial assets				
Investment properties	165	-	1,899	1,899

Consolidated (December 31, 2020)

	Carrying Amount	Fair value		Total
		Level 1	Level 2	
(In Millions of Pesos)				
Financial assets				
Cash and other cash items	37,176	-	37,176	37,176
Due from BSP	223,989	-	223,989	223,989
Due from other banks	40,155	-	40,155	40,155
Interbank loans receivable and SPAR, net	30,251	-	30,251	30,251
Investment securities at amortized cost, net	244,653	253,097	-	253,097
Loans and advances, net	1,407,413	-	1,511,405	1,511,405
Other financial assets	2,548	-	2,548	2,548
Financial liabilities				
Deposit liabilities	1,716,177	-	1,708,322	1,708,322
Bills payable and other borrowed funds	151,947	128,351	21,498	149,849
Due to BSP and other banks	1,491	-	1,491	1,491
Manager's checks and demand drafts outstanding	7,108	-	7,108	7,108
Other financial liabilities	10,694	-	10,694	10,694
Non-financial assets				
Investment properties	150	-	638	638

Parent Bank (December 31, 2021)

	Carrying Amount	Fair value		Total
		Level 1	Level 2	
(In Millions of Pesos)				
Financial assets				
Cash and other cash items	33,868	-	33,868	33,868
Due from BSP	197,435	-	197,435	197,435
Due from other banks	27,734	-	27,734	27,734
Interbank loans receivable and SPAR, net	30,023	-	30,023	30,023
Investment securities at amortized cost, net	333,193	333,720	-	333,720
Loans and advances, net	1,233,052	-	1,217,489	1,217,489
Other financial assets	6,121	-	6,121	6,121
Financial liabilities				
Deposit liabilities	1,671,757	-	1,671,757	1,671,757
Bills payable and other borrowed funds	82,550	82,550	-	82,550
Due to BSP and other banks	814	-	814	814
Manager's checks and demand drafts outstanding	5,243	-	5,243	5,243
Other financial liabilities	4,974	-	4,974	4,974
Non-financial assets				
Investment properties	153	-	1,860	1,860

Parent Bank (December 31, 2020)

	Carrying Amount	Fair value		Total
		Level 1	Level 2	
(In Millions of Pesos)				
Financial assets				
Cash and other cash items	35,912	-	35,912	35,912
Due from BSP	197,974	-	197,974	197,974
Due from other banks	36,605	-	36,605	36,605
Interbank loans receivable and SPAR, net	26,622	-	26,622	26,622
Investment securities at amortized cost, net	216,810	224,636	-	224,636
Loans and advances, net	1,175,071	-	1,199,349	1,199,349
Other financial assets	2,038	-	2,038	2,038
Financial liabilities				
Deposit liabilities	1,470,210	-	1,467,541	1,467,541
Bills payable and other borrowed funds	140,348	118,806	21,498	140,304
Due to BSP and other banks	1,491	-	1,491	1,491
Manager's checks and demand drafts outstanding	5,447	-	5,447	5,447
Other financial liabilities	5,924	-	5,924	5,924
Non-financial assets				
Investment properties	139	-	638	638

26.5 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 BOD's approval.

Note 27 - Capital Management

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

Cognizant of its exposure to risks, the BPI Group maintains sufficient capital to absorb unexpected losses, stay in business for the long haul, and 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.

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 (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.

Information on the regulatory capital is summarized below:

	Consolidated		Parent	
	2021	2020	2021	2020
		(In Millions of Pesos)		
Tier 1 capital	291,396	277,830	291,322	277,755
Tier 2 capital	14,847	13,593	12,961	11,835
Gross qualifying capital	306,243	291,423	304,283	289,590
Less: Regulatory adjustments/required deductions	28,688	30,760	78,076	73,557
Total qualifying capital	277,555	260,663	226,207	216,033
Risk weighted assets	1,664,989	1,527,572	1,430,838	1,309,660
CAR (%)	16.67	17.06	15.81	16.50
CET1 (%)	15.78	16.17	14.90	15.59

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

Likewise, regulatory capital structures of certain subsidiaries on a standalone basis are managed to meet the requirements of the relevant regulatory bodies (i.e. Insurance Commission (IC), SEC, PSE etc.). These subsidiaries have fully complied with the applicable regulatory 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 is likewise fully compliant with this requirement.

Note 28 - 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 that are not presented in the financial statements. The BPI Group does not anticipate any material losses from these commitments.

Note 29 - Subsequent Event

Release of the 4th Tranche of the Peso Bond and Commercial Paper Program

On January 31, 2022, the BPI Group released the fourth tranche of the Peso Bond Commercial Paper Program with a par value amounting to P27,000 million. These bonds issued at a fixed rate of 2.81% p.a., payable quarterly. These bonds are unconditional, unsecured and unsubordinated, and are expected to mature within 2 years from issuance or January 31, 2024.

Note 30 - Other Disclosures

30.1 BPI and BFB Merger

The plan of merger between the Parent Bank and BFB was cleared by the Philippine Deposit Insurance Corporation on June 30, 2021 and the Monetary Board in its resolution dated September 30, 2021 as reflected in the letter of the BSP dated October 4, 2021. On December 21, 2021, the SEC likewise signified its approval on the merger effective January 1, 2022.

The integration of both entities will provide considerable advantages to the customers and employees of BPI and BFB, and present potential synergies that will benefit shareholders. The accelerated shift to digital, the focus on operational efficiency and the expected reduction in the gap in regulatory reserve requirements between commercial banks and thrift banks were factors in the timing of the transaction.

Purchase consideration

On merger date, the Parent Bank shall issue common shares to BFB shareholders amounting to the net assets of the latter in the standalone financial statements as at December 31, 2020.

The Parent Bank, owning 100% of the shares of BFB, shall effectively issue treasury shares as a consideration of the merger. The number of treasury shares to be issued shall be computed based on the net assets of BFB as of December 31, 2020 over the share price of the Parent Bank as of December 29, 2020. The details are as follows:

	Amount (In Thousands of Pesos, except share price and treasury shares)
Net assets of BFB as of December 31, 2020	
Total assets	287,090,333
Total liabilities	254,047,648
	33,042,685
Share price of BPI as of December 29, 2020	P81.35
Number of treasury shares to be issued	406,179,276

These treasury shares are expected to be sold or disposed of by the Parent Bank within six (6) months following the effective date of the merger in accordance with Chapter 3, Section 10 of the General Banking Law of 2000 (Republic Act 8791).

Net assets acquired

Details of BFB assets and liabilities as at acquisition date (January 1, 2022) and December 31, 2020 are as follows:

	January 1, 2022	December 31, 2020
	(In Thousands of Pesos)	
Assets acquired		
Cash and other cash items	982,150	1,004,339
Due from Bangko Sentral ng Pilipinas	67,065,132	17,846,031
Due from other banks	10,152,692	4,935,660
Interbank loans receivable and securities purchased under agreements to resell	-	3,631,258
Financial assets at fair value through profit or loss	101,960	-
Financial assets at fair value through other comprehensive income	16,220,549	6,802,621
Investment securities at amortized cost, net	-	24,233,039
Loans and advances, net	228,649,520	219,636,857
Assets held for sale, net	2,639,361	2,452,159
Bank premises, furniture, fixtures and equipment, net	1,713,807	1,791,553
Deferred income tax assets	3,448,694	3,885,474
Other assets, net	686,981	871,342
	331,660,846	287,090,333
Liabilities assumed		
Deposit liabilities	274,766,919	234,582,648
Other borrowed funds	9,583,528	9,544,988
Manager's checks and demand drafts outstanding	1,676,663	1,644,409
Accrued taxes, interest and other expenses	1,698,772	1,734,264
Deferred credits and other liabilities	11,018,995	6,541,339
	298,744,877	254,047,648
Net assets	32,915,969	33,042,685

Goodwill; Other reserves

As the transaction is outside the scope of PFRS 3, *Business Combinations*, the merger was accounted for using the pooling of interests method following the guidance under the PIC Q&A No. 2018-06. In applying the pooling of interests method, all assets and liabilities of BFB are taken into the merged business at their carrying values with no restatement of comparative 2020 figures. Likewise, no goodwill was recognized as the result of the business combination.

The difference between the carrying amount of the net assets acquired and the purchase consideration shall be an addition/deduction to the other reserves balance as follows:

	Amount (In Thousands of Pesos)
Purchase price	33,042,685
Carrying amount of net assets acquired	32,915,969
Other reserves (addition to capital funds)	126,716

i. Contingencies and commitments acquired

As a result of the merger, the Parent Bank acquired certain off-balance sheet items pertaining to undrawn loan commitments within the scope of PFRS 9. Details of such liabilities are as follows:

	Amount
	(In Thousands of Pesos)
Undrawn loan commitments	6,422,982
Loss allowance	(18,984)
Carrying amount	6,403,998

ii. Acquired receivables

The details of the loans and advances, net acquired as a result of the business combination and its related fair value is as follows:

	Amount
	(In Thousands of Pesos)
Corporate loans	
Large corporate customers	15,135,453
Small and medium enterprises	17,916,051
Retail loans	
Real estate mortgages	151,807,726
Auto loans	51,177,718
Credit cards	1,922,634
Others	174
	237,959,756
Accrued interest receivable	1,972,675
Unearned discount/income	(107,809)
	239,824,622
Allowance for impairment	(11,175,102)
Net carrying amount	228,649,520
Fair value	292,693,036

The details of the other receivables, net, which form part of Other assets, net, acquired as a result of the business combination and its related fair value are as follows:

	Amount
	(In Thousands of Pesos)
Gross carrying amount	256,831
Allowance for impairment	(136,311)
Net carrying amount	120,520
Fair value	120,520

iii. Revenue and profit contribution

In accordance with the Plan of Merger between the Parent Bank and BFB, any net income earned by the latter from January 1, 2021 until the effective date shall be declared and paid as dividends to the Parent Bank. On December 29, 2021, the BOD of BFB declared cash dividends amounting to P3,532 million (P353 per share) out of its unrestricted surplus payable to the Parent Bank as at December 29, 2021. The cash dividends remain to be outstanding as at reporting date. The remaining net income after dividend declaration will form part of Other reserves upon effectivity of the merger.

A summary of the statement of income of BFB for the year ended December 31, 2021 is as follows:

	Amount
	(In Thousands of Pesos)
INTEREST INCOME	
On loans and advances	15,446,743
On investment securities	339,408
On deposits with BSP and other banks	602,061
	16,388,212
INTEREST EXPENSE	
On deposits	4,452,939
On other borrowed funds	451,342
	4,904,281
NET INTEREST INCOME	11,483,931
IMPAIRMENT LOSSES	2,000,000
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	9,483,931
OTHER INCOME	
Fees and commissions	1,450,304
Foreign exchange profit and securities trading gain	13,038
Net gains on disposals of investment securities measured at amortized cost	319,673
Other operating income	484,954
	2,267,969
OTHER EXPENSES	
Compensation and fringe benefits	2,398,486
Occupancy and equipment-related expenses	1,950,452
Other operating expenses	2,887,531
	7,236,469
INCOME BEFORE INCOME TAX	4,515,431
PROVISION FOR INCOME TAX	
Current	669,987
Deferred	296,133
	966,120
NET INCOME FOR THE YEAR	3,549,311

Cash flows as a result of the merger

Cash and cash equivalents acquired as a result of the business combination shall form part of the net cash inflows from investing activities in the statement of cash flows for the period beginning January 1, 2022. The breakdown of the cash and cash equivalents acquired are as follows:

	Amount
	(In Thousands of Pesos)
Cash and other cash items	982,150
Due from Bangko Sentral ng Pilipinas	67,065,132
Due from other banks	10,152,692
Interbank loans receivable and securities purchased under agreements to resell (with maturity of three months or less)	-
	78,199,974

Acquisition-related costs

Acquisition-related costs of P121 million that were not directly attributable to the issue of shares are included in other operating expenses in the statement of income and in operating cash flows in the statement of cash flows for the period beginning January 1, 2021 until effectivity of the merger.

30.2 Regulatory Treatment of Restructured Loans for Purposes of Measuring Expected Credit Losses

On October 14, 2021, the Monetary Board approved the guidelines on restructured loans under BSP Memorandum No. M-2021-056 which shall be effective until December 31, 2022.

Key points of the issuance include:

- Establishment of prudent criteria in the assessment and modification of terms and conditions of loans.
- Classification under Stage 1, 2, or 3 shall be based on the assessment of the borrowers' financial difficulty and ability to pay based on revised terms.

- Restructured loans should not automatically be considered as credit-impaired warranting classification as non-performing. It will only be classified as such when it falls under Stage 3.
- Monitoring of list of restructured loans including risk classification, staging, and provisioning.

The Bank will be applying the guidelines, which will only be relevant for prudential reporting purposes, to its commercial loan portfolio beginning January 1, 2022.

Note 31 - Summary of Significant Accounting Policies

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

31.1 Basis of preparation

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

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

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVTPL, financial assets at FVOCI, and plan assets of the BPI Group's defined benefit plans.

The preparation of financial statements in conformity with PFRSs 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 shown below:

Critical accounting estimates

- Fair value of derivatives and other financial instruments (Note 7)
- Useful lives of bank premises, furniture, fixtures and equipment (Note 11)
- Impairment of investments subsidiaries and associates (Note 12)
- Calculation of defined benefit obligation (Note 23)
- Measurement of expected credit losses for loans and advances (Note 26.1.4)

Critical accounting judgments

- Classification of investment securities at amortized cost (Note 9)
- Realization of deferred income tax assets (Note 13)
- Determining the lease term (Note 20)
- Determining the incremental borrowing rate (Note 20)

31.2 Changes in accounting policy and disclosures

(a) New amendments to existing standards adopted by the BPI Group

The BPI Group has adopted the following amendments to existing standards effective January 1, 2021:

- Amendment to PFRS 16, 'Leases'

The amendment provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

As at December 31, 2021, the Bank recognized a lease concession adjustment to reflect the amendments made to the existing lease contracts following the reliefs provided by the Bank's lessors due to the COVID-19 pandemic. The lease concession adjustment is deemed immaterial for financial reporting purposes.

- Amendments to PFRS 9, 'Financial Instruments', PFRS 7 'Financial Instruments: Disclosures', PFRS 4, 'Insurance Contracts' and PFRS 16 'Leases'

These amendments that were issued in August 2020 address issues that arise during the reform of an interest rate benchmark rate (IBOR), including the replacement of one benchmark rate with an alternative one.

The key reliefs provided by the amendments are as follows:

- Changes to contractual cash flows. When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes that are required by an interest rate benchmark reform (that is, are necessary as a direct consequence of IBOR reform and are economically equivalent) will not result in an immediate gain or loss in the income statement.
- Hedge accounting. The hedge accounting reliefs will allow most PFRS 9 hedge relationships that are directly affected by IBOR reform to continue (Note 19). However, additional ineffectiveness might need to be recorded.

Hedge relationships

The 'Phase 2' amendments address issues arising during interest rate benchmark reform, including specifying when the 'Phase 1' amendments will cease to apply, when hedge designations and documentation should be updated, and when hedges of the alternative benchmark rate as the hedged risk are permitted.

The 'Phase 1' amendments provided temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs had the effect that IBOR reform should not generally cause hedge accounting to terminate prior to contracts being amended. However, any hedge ineffectiveness is continued to be recorded in the statement of income. Furthermore, the amendments set out triggers for when the reliefs would end, which included the uncertainty arising from interest rate benchmark reform no longer being present. The BPI Group has not adopted any hedge accounting reliefs provided by 'Phase 1' in 2020 as the sole cash flow hedge held was not IBOR-based (Note 7).

The hedge accounting reliefs provided by 'Phase 2' of the amendments are as follows:

- Hedge designation: When the phase 1 amendments cease to apply, the BPI Group will amend its hedge designation to reflect changes which are required by IBOR reform, but only to make one or more of these changes:
 - designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;
 - amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or
 - amending the description of the hedging instrument. The BPI Group will update its hedge documentation to reflect this change in designation by the end of the reporting period in which the changes are made. These amendments to the hedge documentation do not require the Group to discontinue its hedge relationships.
- Hedges of groups of items: When amending hedges for groups of items (such as the fair value hedge of interest rate risk within the mortgage portfolio) for IBOR reform, hedged items are allocated to sub-groups within that hedge designation, based on the benchmark rate being hedged for that subgroup (for example, a GBP LIBOR sub-group and a SONIA sub-group within the fair value hedge of the mortgage portfolio). The benchmark rate for each sub-group is designated as the hedged risk.
- Risk components: The BPI Group is permitted to designate an alternative benchmark rate as a noncontractually specified risk component, even if it is not separately identifiable at the date when it is designated, provided that the BPI Group reasonably expects that it will meet the requirements within 24 months of the first designation and the risk component is reliably measurable. The 24-month period applies separately to each alternative benchmark rate which the BPI Group might designate.

For the year ended December 31, 2021, the BPI Group has not adopted any hedge accounting reliefs provided by 'Phase 2' of the amendments since there are no outstanding hedging relationships for the year then ended.

Effect of IBOR reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as USD, GBP and EUR LIBOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes.

As part of the reforms noted above, the international regulators have decided to no longer compel panel banks to participate in the LIBOR submission process after the end of 2021 - although it acknowledges that COVID-19 might impact on these plans - and to cease oversight of these benchmark interest rates. Regulatory authorities and private sector working groups, including the International Swaps and Derivatives Association ('ISDA') and the Working Group on Sterling and Risk-Free Reference Rates, continue to discuss alternative benchmark rates for LIBOR.

It is currently expected that SOFR (Secured Overnight Financing Rate), SONIA (Sterling Overnight Index Average) and €STR (Euro Short Term-Rate) (collectively, "replacement rates") will replace USD LIBOR, GBP LIBOR and EUR LIBOR, respectively. There remain key differences between LIBOR and the replacement rates. LIBOR is a 'term rate', which means that it is published for a borrowing period (such as three months or six months) and is 'forward looking', because it is published at the beginning of the borrowing period. The replacement rates are currently 'backward-looking' rates, based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, LIBOR includes a credit spread over the risk-free rate, which the replacement rates currently do not. To transition existing contracts and agreements that reference LIBOR to their respective replacement rates, adjustments for term differences and credit differences might need to be applied to the replacement rates, to enable the two benchmark rates to be economically equivalent on transition.

The Philippine Interbank Reference Rate (PHIREF) is the benchmark rate used by key local players in setting the reset value for the Philippine Peso floating leg of interest rate swaps. This is derived from done deals in the interbank foreign exchange swap market and computed using USD LIBOR.

As at December 31, 2021, the BPI Group has approved SOFR and SONIA as the replacement rates for USD and GBP LIBOR, respectively, while the remaining exposure on EUR LIBOR matured prior to the cessation of the related benchmark rate. The adoption of the above changes in interest rate benchmark did not have a material impact on the financial statements of the BPI Group.

The following table contains details of all financial instruments that BPI Group holds which reference LIBOR as at December 31, 2021:

Consolidated:

	Carrying Value		Of which: have reference to a currency LIBOR* (In Millions of Pesos)						Total	
			USD Libor		PHIREF		GBP Libor			
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Non-derivative assets and liabilities										
Measured at amortized cost										
Cash and other cash items	35,143	-	-	-	-	-	-	-	-	-
Due from BSP	268,827	-	-	-	-	-	-	-	-	-
Due from other banks	34,572	-	-	-	-	-	-	-	-	-
Interbank loans receivable and SPAR	30,852	-	-	-	-	-	-	-	-	-
Investment securities at amortized cost	338,672	-	4,421	-	-	-	-	-	4,421	-
Loans and advances, net	1,476,527	-	68,787	-	-	-	2,069	-	70,856	-
Other financial assets	2,338	-	-	-	-	-	-	-	-	-
Deposit liabilities	-	1,955,147	-	774	-	-	-	-	-	774
Bills payable and other borrowed funds	-	95,039	-	-	-	-	-	-	-	-
Due to BSP and other banks	-	953	-	-	-	-	-	-	-	-
Manager's checks and demand drafts outstanding	-	6,931	-	-	-	-	-	-	-	-
Lease liabilities	-	7,326	-	-	-	-	-	-	-	-
Other financial liabilities	-	7,256	-	-	-	-	-	-	-	-
	2,186,931	2,072,652	73,208	774	-	-	2,069	-	75,277	774
Measured at fair value										
Financial assets at FVTPL	17,781	-	-	-	-	-	-	-	-	-
Financial assets at FVOCI	134,741	-	-	-	-	-	-	-	-	-
	152,522	-	-	-	-	-	-	-	-	-
Total carrying value of non-derivative assets and liabilities	2,339,453	2,072,652	73,208	774	-	-	2,069	-	75,277	774
Derivative assets and liabilities	3,553	3,632	150,842	-	9,900	-	785	-	161,527	-
Total carrying value of assets and liabilities exposed	2,343,006	2,076,284	224,050	774	9,900	-	2,854	-	236,804	774

*Based on the notional amounts of their related contracts

Parent:

(in millions of Pesos)	Carrying Value		Of which: have reference to a currency LIBOR* (In Millions of Pesos)						Total	
	Assets	Liabilities	USD Libor		PHIREF		GBP Libor		Assets	Liabilities
			Assets	Liabilities	Assets	Liabilities	Assets	Liabilities		
Non-derivative assets and liabilities										
Measured at amortized cost										
Cash and other cash items	33,868	-	-	-	-	-	-	-	-	-
Due from BSP	197,435	-	-	-	-	-	-	-	-	-
Due from other banks	27,734	-	-	-	-	-	-	-	-	-
Interbank loans receivable and SPAR	30,023	-	-	-	-	-	-	-	-	-
Investment securities at amortized cost	333,193	-	4,421	-	-	-	-	-	4,421	-
Loans and advances, net	1,233,052	-	68,091	-	-	-	2,069	-	70,160	-
Other financial assets	6,121	-	-	-	-	-	-	-	-	-
Deposit liabilities	-	1,675,875	-	774	-	-	-	-	-	774
Bills payable and other borrowed funds	-	82,550	-	-	-	-	-	-	-	-
Due to BSP and other banks	-	814	-	-	-	-	-	-	-	-
Manager's checks and demand drafts outstanding	-	5,243	-	-	-	-	-	-	-	-
Lease liabilities	-	6,248	-	-	-	-	-	-	-	-
Other financial liabilities	-	4,974	-	-	-	-	-	-	-	-
	1,861,426	1,775,704	72,512	774	-	-	2,069	-	74,581	774
Measured at fair value										
Financial assets at FVTPL	12,055	-	-	-	-	-	-	-	-	-
Financial assets at FVOCI	115,541	-	-	-	-	-	-	-	-	-
	127,596	-	-	-	-	-	-	-	-	-
Total carrying value of non-derivative assets and liabilities	1,989,022	1,775,704	72,512	774	-	-	2,069	-	74,581	774
Derivative assets and liabilities	3,520	3,545	147,673	-	9,900	-	-	-	157,573	-
Total carrying value of assets and liabilities exposed	1,992,542	1,779,249	220,185	774	9,900	-	2,069	-	232,154	774

*Based on the notional amounts of their related contracts

(b) New standards and amendments to existing standards not yet adopted by the BPI Group

The following new accounting standards and amendments to existing standards are not mandatory for December 31, 2021 reporting period and have not been early adopted by the BPI Group:

- PFRS 17, Insurance Contracts (effective for annual periods beginning on or after January 1, 2025)

PFRS 17 was issued in May 2017 as replacement for PFRS 4, Insurance Contracts. PFRS 17 represents a fundamental change in the accounting framework for insurance contracts requiring liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of (1) discounted probability-weighted cash flows, (2) an explicit risk adjustment, and (3) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the statement of income or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The IC, in coordination with Philippine Insurers and Reinsurers Association, is currently reviewing the impact of PFRS 17 across the entire industry and has established a project team to manage the implementation approach. The IC, considering the extension of IFRS 17 and the challenges of the COVID-19 pandemic to the insurance industry, has deferred the implementation of PFRS 17 to January 1, 2025, granting an additional two-year period from the date of effectivity proposed by the IASB. The BPI Group is assessing the quantitative impact of PFRS 17 as at reporting date.

Likewise, the following amendments to existing standards are not mandatory for December 31, 2021 reporting period and have not been early adopted by the BPI Group:

- Amendments to PAS 16, 'Property, Plant and Equipment'

The amendment prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset.

- Amendments to PFRS 3, *Business Combinations*

Amendments were made to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and Interpretation 21, *Levies*.

- Amendment to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*

The amendment clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling the contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

- Amendments to PAS 1, *Presentation of Financial Statements*

The amendments clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendments also clarify what PAS 1 means when it refers to the 'settlement' of a liability.

In addition, PAS 1 requires entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

- Amendment to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*

The amendment clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

- Amendments to PAS 12, *Income Taxes*

The amendments require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognize deferred tax assets (to the extent that it is probable that they can be utilized) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with (a) right-of-use assets and lease liabilities, and (b) decommissioning, restoration and similar liabilities, and the corresponding amounts recognized as part of the cost of the related assets. The cumulative effect of recognizing these adjustments is recognized in retained earnings, or another component of equity, as appropriate.

- Annual Improvements to PFRS Standards 2018-2020

The following improvements were finalized in May 2020:

- PFRS 9, *Financial Instruments*, clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- PFRS 16, *Leases*, amendment to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

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

31.3 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The BPI Group recognizes a financial instrument in the statements of condition when, and only when, the BPI Group becomes a party to the contractual provisions of the instrument.

31.3.1 Measurement methods

Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired (see definition on Note 31.3.2.2) at initial recognition - the BPI Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the BPI Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.
- Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'Stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the BPI Group commits to purchase or sell the asset.

At initial recognition, the BPI Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, as described in Note 31.3.2.1 below, which results in the loss provision being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the BPI Group recognizes the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
- In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

31.3.2 Financial assets

31.3.2.1 Classification and subsequent measurement

The BPI Group classifies its financial assets in the following measurement categories: at FVTPL, FVOCI, and at amortized cost. The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and advances, due from BSP and other banks, government and corporate bonds and other financial receivables.

Classification and subsequent measurement of debt instruments depend on the BPI Group's business model for managing the asset and the cash flow characteristics of the asset.

Based on these factors, the BPI Group classifies its debt instruments into one of the following three measurement categories:

- *Amortized cost*
Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. Amortized cost financial assets include cash and other cash items, due from BSP, due from other banks, interbank loans receivables and SPAR, loans and advances, and other financial assets.
- *FVOCI*
Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in the statements of income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- *FVTPL*
Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognized in profit or loss and presented in the statements of income within "Securities trading gain" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately.

Business model

The business model reflects how the BPI Group manages the assets in order to generate cash flows. That is, whether the BPI Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified and measured at FVTPL. Factors considered by the BPI Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Solely Payment of Principal and Interest

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the BPI Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the BPI Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The BPI Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The BPI Group subsequently measures all equity investments at FVTPL, except where the BPI Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The BPI Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, even on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as 'Other operating income' when the BPI Group's right to receive payments is established. Gains and losses on equity investments at FVTPL are included in the "Securities trading gain" in the statements of income.

31.3.2.2 Impairment of amortized cost and FVOCI financial assets

The BPI Group assesses impairment as follows:

- individually for loans that exceed specified thresholds. Where there is objective evidence of impairment, individually assessed provisions will be recognized; and
- collectively for loans below the specified thresholds noted above or if there is no objective evidence of impairment. These loans are included in a group of loans with similar risk characteristics and collectively assessed for impairment. If there is objective evidence that the group of loans is collectively impaired, collectively assessed provisions will be recognized.

Expected credit losses

The BPI Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments. The BPI Group recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the BPI Group.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired. The BPI Group determines SICR based on prescribed benchmarks approved by the Board of the Directors.
- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that results from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- POCI financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3). The BPI Group has no POCI as at December 31, 2021 and 2020.

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

Determination of SICR

The BPI Group compares the probabilities of default occurring over its expected life as at the reporting date with the PD occurring over its expected life on the date of initial recognition to determine SICR. Since comparison is made between forward-looking information at reporting date against initial recognition, the deterioration in credit risk may be triggered by the following factors:

- substantial deterioration in credit quality as measured by the applicable internal or external ratings or credit score or the shift from investment grade category to non-investment grade category;
- adverse changes in business, financial and/or economic conditions of the borrower;

- early warning signs of worsening credit where the ability of the counterparty to honor his obligation is dependent upon the business or economic condition;
- the account has become past due beyond 30 days where an account is classified under special monitoring category (refer to Note 26.1.2 for the description of special monitoring); and
- expert judgment for the other quantitative and qualitative factors which may result to SICR as defined by the BPI Group.

Measuring ECL - Inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD, defined as follows:

- The PD represents the likelihood that the borrower will default (as per “Definition of default and credit-impaired” above), either over the next 12 months (12M PD), or over the remaining life (lifetime PD) of the asset.
- EAD is based on the amounts the BPI Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining life (lifetime EAD). For example, for a revolving commitment, the BPI Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.
- For committed credit lines, the EAD is predicted by taking current drawn balance and adding a “credit conversion factor” which allows for the expected drawdown of the remaining limit by the time of default.
- LGD represents the BPI Group’s expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

The LGDs are determined based on the factors which impact the recoveries made post-default.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies and historical recoveries.

The ECL is determined by multiplying the PD, LGD and EAD together for each individual exposure or collective segment. This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the life of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band.

Forward-looking economic information is also included in determining the 12-month and lifetime PD. These assumptions vary by product type.

The assumptions underlying the ECL calculation - such as how the maturity profile of the PDs and how collateral values change - are monitored and reviewed regularly.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period from the time of the adoption of PFRS 9 on January 1, 2018 to the reporting date.

Forward-looking information incorporated in the ECL models

The BPI Group incorporates historical and current information, and forecasts forward-looking events and key economic variables that are assessed to impact credit risk and expected credit losses for each portfolio. MEVs that affect a specific portfolio’s non-performing loan rate(s) are determined through statistical modelling and the application of expert judgment. The BPI Group’s economics team establishes possible global and domestic economic scenarios. With the use of economic theories and conventions, expert judgment and external forecasts, the economics team develops assumptions to be used in forecasting variables in the next five (5) years, subsequently reverting to long run-averages. The probability-weighted ECL is calculated by running each scenario through the relevant ECL models and multiplying it by the appropriate scenario weighting.

The estimation and application of forward-looking information requires significant judgment. As with any economic forecasts, the projections and likelihood of occurrences are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The scenarios and their attributes are reassessed at each reporting date. Information regarding the forward-looking economic variables and the relevant sensitivity analysis is disclosed in Note 26.

Financial assets with low credit risk

Loss allowance for financial assets at amortized cost and FVOCI that have low credit risk is limited to 12-month expected credit losses. Management considers “low credit risk” for listed government bonds to be an investment grade credit rating with at least one major rating agency. Other debt instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Definition of default and credit-impaired assets

The BPI Group considers a financial instrument in default or credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments (with the exception of credit cards and micro-finance loans where a borrower is required to be 90 days past due and over 7 days past due, respectively, to be considered in default).

Qualitative criteria

The counterparty is experiencing significant financial difficulty which may lead to non-payment of loan as may be indicated by any or combination of the following events:

- The counterparty is in long-term forbearance;
- The counterparty is insolvent;
- The counterparty is in breach of major financial covenant(s) which lead(s) to event of default;
- An active market for the security has disappeared;
- Granting of concession that would not be otherwise considered due to economic or contractual reasons relating to the counterparty's financial difficulty;
- It is becoming probable that the counterparty will enter bankruptcy or other financial reorganization; and
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the BPI Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD, and LGD throughout the BPI Group's expected credit loss calculations.

The BPI Group's definition of default is substantially consistent with non-performing loan definition of the BSP. For cross-border, treasury and debt securities, these are classified as defaulted based on combination of BSP and external credit rating agency definitions.

31.3.3 Modification of loans

The BPI Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the BPI Group assesses whether or not the new terms are substantially different to the original terms. The BPI Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the BPI Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the BPI Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in the statements of income as a gain or loss on derecognition.

If the terms are not substantially different, the BPI Group recalculates the gross carrying amount of the financial asset and recognizes a modification gain or loss in the statement of income. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Loan modifications in compliance with the Bayanihan Acts I and II in 2020, was treated in line with BPI Group's policies discussed above.

31.3.4 Derecognition of financial assets other than modification

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the BPI Group transfers substantially all the risks and rewards of ownership, or (ii) the BPI Group neither transfers nor retains substantially all the risks and rewards of ownership and the BPI Group has not retained control.

The BPI Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the BPI Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the BPI Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the BPI Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

31.3.5 Write-off of financial assets

The BPI Group writes off financial assets when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the BPI Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The BPI Group may write-off financial assets that are still subject to enforcement activity. The write-off of loans is approved by the BOD in compliance with the BSP requirements. Loans written-off are fully covered with allowance.

Recoveries on charged-off assets

Collections on accounts or recoveries from impaired financial assets previously written off are recognized in profit or loss under Miscellaneous income in the period where the recovery transaction occurs.

31.3.6 Financial liabilities

31.3.6.1 Classification of financial liabilities

The BPI Group classifies its financial liabilities in the following categories: financial liabilities at FVTPL and financial liabilities at amortized cost.

(a) Financial liabilities at FVTPL

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the BPI Group as at FVTPL 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 statements of income and are reported as “Securities trading gain”. 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 FVTPL fall into this category and are measured at amortized cost. Financial liabilities measured at amortized cost include deposits from customers and banks, bills payable, amounts due to BSP and other banks, manager’s checks and demand drafts outstanding, subordinated notes and other financial liabilities under deferred credits and other liabilities.

31.3.6.2 Subsequent measurement and derecognition

Financial liabilities at FVTPL are subsequently carried at fair value. Other liabilities are measured at amortized cost using the effective interest method.

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

31.3.7 Loan commitments

Loan commitments are contracts in which the BPI Group is required to provide loans with pre-specified terms to customers. These contracts, which are not issued at below-market interest rates and are not settled net in cash or by delivering or issuing another financial instrument, are not recorded in the statements of condition.

31.3.8 Derivative financial instruments

A derivative instrument is initially recognized at fair value on the date a derivative contract is entered into, and is subsequently remeasured to its fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument or is held for trading.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting (and therefore, held for trading) are recognized immediately in profit or loss and are included in “Securities trading gain”.

Hedge accounting

The BPI Group designates derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

At inception of the hedge relationship, the BPI Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The BPI Group documents its risk management objective and strategy for undertaking its hedge transactions.

In 2021, the BPI Group's existing cash flow hedge activity in 2020 has matured (Note 7). There are no fair value hedges or net investment hedges as of reporting date.

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the “Cash flow hedge reserve” within equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, within “Other operating income”.

When the group excludes the forward element of a forward contract and foreign currency basis spread of financial instruments in the hedge designation, the fair value change of the forward element and currency basis spread that relates to the hedged item ('aligned forward element/currency basis spread') is recognized within OCI in the costs of hedging reserve within equity. If the group designates the full change in fair value of the derivative (including forward points and currency basis spreads) the gains or losses relating to the effective portion of the change in fair value of the entire derivative are recognized in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified to profit or loss within other operating income in the same periods during which the hedged future cash flows affect profit or loss. However, if the amount is a loss and the BPI Group expects that all or a portion of that loss will not be recovered in one or more future periods, the amount that is not expected to be recovered shall immediately be reclassified to profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time shall be reclassified to profit or loss in the same periods during which the future cash flows affect profit or loss. When the future cash flows are no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

31.3.8.1 Embedded derivatives

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the BPI Group assesses the entire contract for classification and measurement in accordance with the policy outlined in Note 30.3.2 above. Otherwise, the embedded derivatives are treated as separate derivatives when:

- Their economic characteristics and risks are not closely related to those of the host contract;
- A separate instrument with the same terms would meet the definition of a derivative; and
- The hybrid contract is not measured at FVTPL.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in the statements of income unless the BPI Group chooses to designate the hybrid contracts at FVTPL.

31.3.9 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, PSE, Philippine Dealing and Exchange Corp., etc.).
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter (OTC) derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The BPI Group considers relevant and observable market prices in its valuations where possible. The BPI Group has no assets or liabilities classified under Level 3 as at and for the year ended December 31, 2021 and 2020.

31.3.10 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 have been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

31.3.11 Dividend income

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

31.3.12 Offsetting of financial instruments

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

As at December 31, 2021 and 2020, there are no financial assets and liabilities presented at net amounts due to offsetting.

31.3.13 Cash and cash equivalents

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

31.3.14 Repurchase and reverse repurchase agreements

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

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

31.4 Consolidation

The subsidiaries financial statements are prepared for the same reporting year as the consolidated financial statements. Refer to Note 1 for the list of the Parent Bank's subsidiaries.

(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.

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 PFRS 9 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.

If the Parent Bank loses control of a subsidiary, the Parent Bank:

- derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position.
- recognizes any investment retained in the former subsidiary and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant PFRSs. The remeasured value at the date that control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with PFRS 9 or the cost on initial recognition of an investment in an associate or joint venture, if applicable.
- recognizes the gain or loss associated with the loss of control attributable to the former controlling interest.

(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 other than those related to discontinued operation 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 statements 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.

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.

(d) Business combination between entities under common control

Business combinations under common control are accounted for using the pooling of interest method following the guidance under the PIC Q&A No. 2018-01. Under this method, the Parent Bank does not restate the acquired businesses or assets and liabilities to their fair values. The net assets of the combining entities or businesses are combined using the carrying amounts of assets and liabilities of the acquired entity. No amount is recognized in consideration for goodwill or the excess of acquirer's interest in the net fair value of acquired identifiable assets, liabilities and contingent liabilities over their cost at the time of the common control combination.

31.5 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 statements of condition. Any gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the investment and recognized in profit or loss.

31.6 Segment reporting

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

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

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

31.7 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 and impairment loss, if any. 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 carried at historical cost and is not depreciated. Depreciation for buildings and furniture and equipment is calculated using the straight-line method to allocate cost or residual values over the estimated useful lives of the assets, as follows:

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. There are no bank premises, furniture, fixtures and equipment that are fully impaired as at December 31, 2021 and 2020.

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

31.8 Investment properties

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

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

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

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

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

31.9 Foreclosed assets

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

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

- (a) Investment property is accounted for using the cost model under PAS 40;
- (b) Bank-occupied property is accounted for using the cost model under PAS 16; and
- (c) Financial assets are accounted for under PFRS 9.

When foreclosed assets are recovered through a sale transaction, the gain or loss recognized from the difference between the carrying amount of the foreclosed asset disposed and the net disposal proceeds is recognized in profit or loss.

31.10 Discontinued operations

A discontinued operation is a component of the BPI Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of income, statement of total comprehensive income and statement of cash flows. Likewise, prior year balances of such statements are restated in accordance with the provisions of PFRS 5. The details of the discontinued operations are disclosed in Note 12.

31.11 Intangible assets

(a) Goodwill

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

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

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

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

(b) Contractual customer relationships

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

(c) Computer software

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

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

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;

- adequate technical, financial and other assets 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.

(d) Management contracts

Management contracts are recognized at fair value at the acquisition date. They have a finite useful life of five years and are subsequently carried at cost less accumulated amortization and impairment losses, if any. Amortization is calculated using the straight-line method over the estimated useful life of the contract. Management contracts are included under Other assets in the statement of condition.

31.12 Impairment of non-financial assets

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

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

31.13 Borrowings and borrowing costs

The BPI Group's borrowings consist mainly of bills payable and other borrowed funds. Borrowings are recognized initially at fair value, which is the 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, 2021 and 2020.

Borrowings derecognized when the obligation specified in the contract is discharged, cancelled, or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the Statements of Income as other income.

31.14 Fees and commission income

The BPI Group has applied PFRS 15 where revenue is recognized when (or as) The BPI Group satisfies a performance obligation by transferring a promised good or service to a customer (i.e. an asset). An asset is transferred when (or as) the customer obtains control of that asset.

The recognition of revenue can be either over time or at a point in time depending on when the performance obligation is satisfied.

When control of a good or service is transferred over time, that is, when the customer simultaneously receives and consumes the benefits, the BPI Group satisfies the performance obligation and recognizes revenue over time. Otherwise, revenue is recognized at the point in time at the point of transfer control of the good or service to the customer.

Variable consideration is measured using either the expected value method or the most likely amount method depending on which method the BPI Group expects to better predict the amount of consideration to which it will be entitled. This is the estimated amount of variable consideration, or the portion, if any, of that amount for which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Where there is a single performance obligation, the transaction price is allocated in its entirety to that performance obligation. Where there are multiple performance obligations, the transaction price is allocated to the performance obligation to which it relates based on stand-alone selling prices.

The BPI Group recognizes revenue based on the price specified in the contract, net of the estimated rebates/discounts and include variable consideration, if there is any. Accumulated experience is used to estimate and provide for the discounts and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

The BPI Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the BPI Group does not adjust any of the transaction prices for the time value of money.

There are no warranties and other similar obligation and refunds agreed with customers.

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

31.15 Credit card income

Credit card arrangements involve numerous contracts between various parties. The BPI Group has determined that the more significant contracts within the scope of PFRS 15 are (1) the contract between the BPI Group and the credit card holder ('Cardholder Agreement') under which the BPI Group earn miscellaneous fees (e.g., annual membership fees, late payment fees, foreign exchange fees, etc.) and (2) an implied contract between the BPI Group and merchants who accept the credit cards in connection with the purchase of their goods and/or services ('Merchant Agreement') under which the BPI Group earn interchange fees.

The Cardholder Agreement obligates the BPI Group, as the card issuer, to perform activities such as process redemption of loyalty points by providing goods, services, or other benefits to the cardholder; provide ancillary services such as concierge services, travel insurance, airport lounge access and the like; process late payments; provide foreign exchange services and others. The amount of fees stated in the contract represents the transaction price for that performance obligation.

The implied contract between the BPI Group and the merchant results in the BPI Group receiving an interchange fee from the merchant. The interchange fee represents the transaction price associated with the implied contract between the BPI Group and the merchant because it represents the amount of consideration to which the BPI Group expects to be entitled in exchange for transferring the promised service (i.e., purchase approval and payment remittance) to the merchant. The performance obligation associated with the implied contract between the BPI Group and the merchant is satisfied upon performance and simultaneous consumption by the customer of the underlying service. Therefore, a portion of the interchange fee is allocated to the performance obligations based on stand-alone transaction price and revenue is recognized when these performance obligations are satisfied.

31.16 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 financial assets at FVOCI 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 FVTPL, are reported as part of the fair value gain or loss recognized under "Securities trading gain" in the statement of income. Translation differences on non-monetary financial instruments, such as equities classified as financial assets at FVOCI, 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:

- assets and liabilities are translated at the closing rate at reporting date;
- 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
- all resulting exchange differences are recognized as a separate component (Currency translation differences) 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.

(d) Income from foreign exchange trading

Foreign exchange gains and losses arising from trading of foreign currencies are recorded under "Income from foreign exchange trading" in the statement of income. Gains or losses are calculated as the difference between the carrying amount of the asset sold and the net disposal proceeds at the date of sale.

31.17 Accrued expenses and other liabilities

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

31.18 Provisions for legal or contractual obligations

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

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

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

31.19 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 financial assets at FVOCI) that are charged or credited in other comprehensive income or directly to capital funds.

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

(b) Deferred income tax

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

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

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

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

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

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

31.20 Employee benefits

(a) Short-term benefits

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

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

(b) Defined benefit retirement plan

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

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

Defined benefit costs comprise of service cost, net interest on the net defined benefit liability or asset and remeasurements of net defined liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past service costs are recognized when the plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as interest income or expense in the statement of income.

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.

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

(c) Defined contribution retirement plan

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

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

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

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

(d) Share-based compensation

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

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

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

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

(e) Bonus plans

The BPI Group recognizes a liability and an expense for bonuses and recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

31.21 Capital funds

Share capital consists of common shares which are instruments that meet the definition of "equity".

Share premium includes any premiums or consideration received in excess of the total par value of the common shares issued.

Incremental costs directly attributable to the issue of new shares are treated as a deduction from the share issuance proceeds.

31.22 Earnings per share (EPS)

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

31.23 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 BOD.

31.24 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 24).

31.25 Leases

31.25.1 BPI Group is the lessee

Assets and liabilities arising from a lease are initially measured on a present value basis. The interest expense is recognized in the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Measurement of lease liabilities

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the BPI Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the BPI Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held for entities which do not have recent third-party financing; and
- makes adjustments specific to the lease (i.e. term, currency and security).

Lease payments are allocated between principal and interest expense. The interest expense 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.

Measurement of right-of-use assets

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the BPI Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the BPI Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is revised only if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Lease modification

Lease modifications are accounted either as a separate lease or not a separate lease. The BPI Group accounts for the lease modification as a separate lease if both:

- the modification increases the scope of the lease by adding the right of use to one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For lease modification that is not accounted for a separate lease, at the effective date of lease modification, the BPI Group:

- allocates the consideration in the modified contract on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components;
- determine the lease term of the modified lease; and
- remeasure the lease liability by discounting the revised lease payments using a revised discount rate.

The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

For a lease modification that is not accounted for as a separate lease, the BPI Group accounts for the remeasurement of the lease liability by:

- decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease; and
- making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The BPI Group recognizes in profit or loss any gain or loss relating to the partial or full termination of the lease.

Short-term leases and leases of low-value assets

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the statements of income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

31.25.2 BPI Group is the lessor

PFRS 16 substantially carries forward the lessor accounting requirements in PAS 17. Accordingly, the BPI Group (as a lessor) continues to classify its leases as operating leases or finance leases.

Operating lease

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

Finance lease

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

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

31.26 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 PFRS 9.

(b) Pre-need

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

31.27 Related party relationships and transactions

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

31.28 Comparatives

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

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

31.29 Subsequent events (or Events after the reporting date)

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

Note 32 - Supplementary information required under BSP Circular No. 1074

Presented below are the additional information required by BSP Circular No. 1074 issued on January 8, 2020. This information is presented for BSP reporting purposes and is not required in the basic financial statements.

(i) Basic Quantitative Indicators of Financial Performance

The key financial performance indicators follow (in %):

	Consolidated		Parent	
	2021	2020	2021	2020
Return on average equity				
- Daily average ¹	8.40	7.70	9.70	10.81
- Simple average ²	8.28	7.79	9.60	11.00
Return on average assets				
- Daily average ³	1.08	0.98	1.21	1.33
- Simple average ⁴	1.03	0.96	1.15	1.31
Net interest margin				
- Daily average ⁵	3.30	3.49	3.06	3.31
- Simple average ⁶	3.15	3.45	2.91	3.26

¹Net income divided by average total equity for the period indicated. Average equity is based on the daily average balance of equity for the years ended December 31, 2021 and 2020.

²Net income divided by average total equity for the period indicated. Average total equity is based on the year-on-year balance of equity for the years ended December 31, 2021 and 2020.

³Net income divided by average total assets as at period indicated. Average total assets are based on the daily average balance of total assets as at December 31, 2021 and 2020.

⁴Net income divided by average total assets as at period indicated. Average total assets are based on the year-on-year balance of total assets as at December 31, 2021 and 2020.

⁵Net interest income divided by average interest-earning assets. Average interest earning assets is based on the daily average balance of interest earning assets as at December 31, 2021 and 2020.

⁶Net interest income divided by average interest-earning assets. Average interest earning assets is based on the year-on-year balance of interest earning assets as at December 31, 2021 and 2020.

(ii) Description of Capital Instrument Issued

BPI considers its common shares as capital instrument for purposes of calculating its capital adequacy ratio as at December 31, 2021 and 2020.

Significant Credit Exposures

Details of the loans and advances portfolio as to concentration per industry/economic sector (in %) as at December 31 are as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
Real estate, renting and other related activities	25.63	25.42	18.05	18.04
Manufacturing	15.62	14.97	18.54	17.79
Wholesale and retail trade	10.69	10.97	11.83	12.18
Consumer	8.08	8.01	5.44	5.12
Financial institutions	8.08	8.88	9.64	10.57
Agriculture and forestry	1.94	2.53	2.31	3.01
Others	29.96	29.22	34.19	33.29
	100.00	100.00	100.00	100.00

Breakdown of Total Loans

Details of the loans and advances portfolio as at December 31 as to collateral (amounts net of unearned discounts and exclusive of accrued interest receivable) are as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
		(In Millions of Pesos)		
Secured loans				
Real estate mortgage	268,427	257,311	138,333	132,600
Chattel mortgage	51,878	51,821	6	8
Others	122,943	203,629	120,803	201,013
	443,248	512,761	259,142	333,621
Unsecured loans	1,079,224	932,434	1,009,327	870,066
	1,522,472	1,445,195	1,268,469	1,203,687

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

Breakdown of performing and non-performing loans net of allowance for credit losses, as reported to the BSP, are as follows:

Consolidated

	2021			2020		
	Performing	Non-performing	Total	Performing	Non-performing	Total
	(In Millions of Pesos)					
Corporate loans	1,198,873	17,531	1,216,404	1,147,201	12,990	1,160,191
Credit cards	67,397	3,762	71,159	58,652	5,453	64,105
Other retail loans	218,255	16,663	234,918	200,612	20,310	220,922
	1,484,525	37,956	1,522,481	1,406,465	38,753	1,445,218
Allowance for probable losses	(8,546)	(17,572)	(26,118)	(13,073)	(14,483)	(27,556)
Net carrying amount	1,475,979	20,384	1,496,363	1,393,392	24,270	1,417,662

*Amounts exclude accrued interest receivables and GLLP

Parent

	2021			2020		
	Performing	Non-performing	Total	Performing	Non-performing	Total
	(In Millions of Pesos)					
Corporate loans	1,177,981	16,087	1,194,068	1,127,042	10,507	1,137,549
Credit cards	65,765	3,576	69,341	56,803	5,096	61,899
Other retail loans	4,584	476	5,060	3,823	430	4,253
	1,248,330	20,139	1,268,469	1,187,668	16,033	1,203,701
Allowance for probable losses	(7,378)	(12,790)	(20,168)	(11,001)	(9,470)	(20,471)
Net carrying amount	1,240,952	7,349	1,248,301	1,176,667	6,563	1,183,230

*Amounts exclude accrued interest receivables and GLLP

BSP Circular 941, *Amendments to Regulations on Past Due and Non-Performing Loans*, states that loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and if there is an evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after they have become past due.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

(iii) *Information on Related Party Loans*

Details of related party loans are as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
Loans and advances from:				
Subsidiaries	-	189	-	-
Associates	60	509	60	509
Ayala Group	65,195	76,509	65,195	71,123
Other related parties	546	24,160	544	7,569

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos, except percentages)			
Total outstanding loans and advances	65,801	101,367	65,799	79,201
% to total outstanding related party loans				
Subsidiaries	-	0.19	-	0.00
Associates	0.09	0.50	0.09	0.64
Ayala Group	99.08	75.48	99.08	89.80
Other related parties	0.83	23.83	0.83	9.56

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos, except percentages)			
Total outstanding loans and advances	65,801	101,367	65,799	79,201
% to total outstanding related party loans				
Unsecured related party loans	66.61	32.58	66.61	41.69
Past due related party loans	0.00	0.00	0.00	0.00
Non-performing related party loans	0.00	0.00	0.00	0.00

Details of DOSRI loans are as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
Outstanding DOSRI loans	15,230	15,675	15,229	15,673

	Consolidated		Parent	
	2021	2020	2021	2020
	(In percentages)			
% to total outstanding loans and advances	1.00	1.08	1.20	1.30
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	3.11	3.20	3.11	3.20
Past due DOSRI loans	0.01	0.00	0.01	0.00
Non-performing DOSRI loans	0.02	0.00	0.02	0.00

The BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans as at December 31, 2021 and 2020.

(iv) Secured Liabilities and Assets Pledged as Security

The BPI Group's Bills payable (Note 16) include mainly funds borrowed from various banking institutions which were lent out to customers of the BPI Group. As at December 31, 2021 and 2020, the BPI Group has no outstanding loans and advances used as security for bills payable (Note 10).

(v) Contingencies and commitments arising from off-balance sheet items

The following is a summary of BPI's contingencies and commitments at their equivalent peso amounts as reported to the BSP:

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
Guarantees issued	2,327	1,401	2,327	1,401
Financial standby letters of credit - foreign	15,367	8,370	15,367	8,370
Performance standby letters of credit - foreign	4,453	3,442	4,453	3,442
Commercial letters of credit	10,719	9,055	10,719	9,055
Trade related guarantees	1,305	2,255	1,305	2,255
Commitments	124,754	126,903	122,689	125,004
Spot foreign exchange contracts	10,208	18,616	10,208	18,616
Derivatives	357,556	339,259	349,039	336,211
Other contingent accounts	1,141,823	1,095,617	27,337	45,902
	1,668,512	1,604,918	543,444	550,256

Other contingent accounts pertain to inward and outward bills for collection, late deposits or payments received, and trust department accounts.

Significant credit risk exposures arising from off-balance sheet items are as follows:

	Consolidated		Parent	
	2021	2020	2021	2020
	(In Millions of Pesos)			
Undrawn loan commitments	360,425	352,844	354,002	346,995
Unused letters of credit	34,131	24,512	34,131	24,512
Gross carrying amount	394,556	377,356	388,133	371,507
Loss allowance	(747)	(959)	(728)	(927)
Carrying amount	393,809	376,397	387,405	370,580

Undrawn loan commitments and letters of credit are commitments under which over the duration of the commitment, the BPI Group is required to provide a loan with pre-specified terms to the customer. These off-balance sheet items are within the scope of PFRS 9 where the BPI Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to the off-balance sheet items is recognized in “Miscellaneous liabilities” (Note 17).

The BPI Group has no other off-balance sheet items other than the items listed above.

Note 33 - Supplementary information required by the Bureau of Internal Revenue

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

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

(i) Documentary stamp tax

Documentary stamp taxes paid through the Electronic Documentary Stamp Tax System for the year ended December 31, 2021 consist of:

	Amount (In Millions of Pesos)
Deposit and loan documents	6,016
Trade finance documents	565
Mortgage documents	453
Others	2
	7,063

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2021 consist of:

	Amount		
	Paid	Accrued	Total
	(In Millions of Pesos)		
Income taxes withheld on compensation	1,868	214	2,082
Withholding tax on withdrawal from decedent's account	22	2	24
Final income taxes withheld on interest on deposits and yield on deposit substitutes	1,041	46	1,087
Final income taxes withheld on income payment	285	204	489
Creditable income taxes withheld (expanded)	390	51	441
Fringe benefit tax	76	20	96
VAT withholding tax	36	2	38
	3,718	539	4,257

(iii) All other local and national taxes

All other local and national taxes paid/accrued for the year ended December 31, 2021 consist of:

	Amount		
	Paid	Accrued	Total
	(In Millions of Pesos)		
Gross receipts tax	3,819	370	4,189
Real property tax	119	-	119
Municipal taxes	291	-	291
Others	82	-	82
	4,311	370	4,681

Local and national taxes imposed by the government which are incurred under the normal courses of business are part of "Taxes and Licenses" within Other Operating Expense (Note 21).

(iv) Tax cases and assessments

As at reporting date, the Parent Bank has pending cases filed in courts, with the tax authorities contesting certain tax assessments, and for various claims for tax refund.