COVER SHEET

PW-121
S.E.C. Registration Number

BANK OF THE PHILIPPINE ISLANDS

(Company's Full Name)

AYALA NORTH EXCHANGE, TOWER 1,
6796 AYALA AVENUE COR. SALCEDO
STREET, LEGASPI VILLAGE
MAKATI CITY
(Business Address: No. Street City/Town/Province)

ATTY. ANGELA PILAR B. MARAMAG
Contact Person

8246-5902
Company Telephone Number

12 31
Month *Day*
Fiscal Year

DEFINITIVE INFORMATION STATEMENT
FORM TYPE

04 22 21
Month *Day*
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of the Bank of the Philippine Islands (BPI) will be conducted virtually via http://www.ayalagroupshareholders.com/ on **Thursday, April 22, 2021 at 9:00 A.M.**, for the transaction of the following business:

1. Calling of Meeting to Order
2. Certification of Notice of Meeting, Determination of Quorum, and Rules of Conduct and Procedures
3. Approval of the Minutes of the Annual Meeting of the Stockholders on April 23, 2020
4. Approval of Annual Report and Audited Financial Statements
5. Ratification of the Acts of the Board of Directors and Officers
6. Election of the Board of Directors (including the Independent Directors)
7. Election of External Auditors and Fixing of their Remuneration
8. Approval of the following –
    a. Merger of BPI Family Savings Bank, Inc. into the Bank of the Philippine Islands
    b. Increase in Authorized Capital Stock and Corresponding Amendment of Article VII of the Bank's Articles of Incorporation
9. Consideration of Such Other Business as May Properly Come Before the Meeting
10. Adjournment

Stockholders of record as of March 5, 2021 will be entitled to notice and to vote at this meeting.

Given the current circumstances, stockholders may only attend the meeting by appointing the Chairman of the meeting as their proxy or by remote communication.

Duly accomplished proxies shall be submitted to the Office of the Corporate Secretary, Ayala North Exchange Tower 1, 6796 Ayala Avenue cor. Salcedo St., Legaspi Village, Makati City or by email to bpi-asm@bpi.com.ph not later than 5:00 P.M. of April 12, 2021. Validation of proxies is set for April 13, 2021 at 2:00 P.M.

Stockholders intending to participate by remote communication should notify the Bank by email to bpi-asm@bpi.com.ph on or before April 12, 2021. Stockholders may vote electronically *in absentia*, subject to validation procedures. The procedures for participation in the meeting through remote communication and for casting votes *in absentia* are set forth in the Bank's website and Information Statement.

For this purpose and in accordance with Article XII of the Bank's Amended By-Laws, the Stock and Transfer Book of BPI will be closed from March 23, 2021 to April 21, 2021.

Makati City, March 17, 2021

FOR THE BOARD OF DIRECTORS

(Sgd.) ANGELA PILAR B. MARAMAG
Corporate Secretary

EXPLANATION OF AGENDA ITEMS FOR STOCKHOLDERS' MEETING – APRIL 22, 2021

1. Calling of Meeting to Order

Mr. Jaime Augusto Zobel de Ayala, Chairman of the BPI Board of Directors, will call the meeting to order.

2. Certification of Notice of Meeting, Determination of Quorum and Rules of Conduct and Procedures

The Corporate Secretary will certify the date when written notice of the meeting was sent to all stockholders of record as of March 5, 2021, and the date of publication of the notice at a newspaper of general circulation.

The Corporate Secretary will further certify whether a quorum is present for the valid transaction of the Annual Stockholders' Meeting. Pursuant to Sections 57 and 23 of the Revised Corporation Code which allow voting *in absentia* by stockholders, the Bank has set up a designated online web address which may be accessed by the stockholders to register and vote *in absentia* on the matters for resolution at the meeting. The holders of record of a majority of the stock of the Bank then issued and outstanding and entitled to vote, represented by proxy or participating through remote communication or voting *in absentia*, shall constitute a quorum for the transaction of business.

The following are the rules of conduct and procedures for the meeting:

(a) Stockholders may attend the meeting remotely through the online web address (URL) provided. Questions and comments may be sent via e-mail prior to or during the meeting to bpi-asm@bpi.com.ph, and shall be limited to the items in the Agenda of the meeting.

(b) Stockholders must notify the Bank of their intention to participate in the meeting by remote communication to be included in the determination of quorum, together with stockholders who voted *in absentia* and by proxy.

(c) Voting shall only be allowed for stockholders registered in the Bank's Voting *In Absentia* & Shareholder (VIASH) System or through the Chairman of the meeting as proxy. Detailed requirements and instructions pertaining to the VIASH System and the user thereof are provided in the Bank's website and Information Statement. Stockholders may also contact the BPI Stock Transfer Office for information and assistance.

(d) For items on the agenda for approval, the affirmative vote of at least a majority of the issued and outstanding capital stock entitled to vote and represented at the meeting will be required for approval. For item 8 of the agenda, the affirmative vote of at least 2/3 of the issued and outstanding capital stock is required. Each outstanding share of stock entitles the registered holder to one vote. The election of directors will be by plurality of votes and every stockholder shall be entitled to cumulate his votes. All votes received shall be tabulated by the Office of the Corporate Secretary and the results will be validated by the Bank's external auditor.

(e) The meeting proceedings will be recorded in audio and video format.

3. Approval of the Minutes of the Annual Meeting of the Stockholders on April 23, 2020

The minutes of the meeting held on April 23, 2020 are available at the Bank's website, www.bpi.com.ph. Copies of the minutes will also be distributed to the stockholders before the meeting.

4. Approval of Annual Report and Audited Financial Statements as of December 31, 2020

The audited financial statements (AFS) as of December 31, 2020 will be presented for approval of the stockholders. Prior thereto, the Chairman, Mr. Jaime Augusto Zobel de Ayala, and the President and Chief Executive Officer, Mr. Cezar P. Consing, will deliver their report to the stockholders on the highlights of BPI's performance in 2020 and the outlook for 2021. After the presentation of the Chairman and the President/CEO, the stockholders will be given an opportunity to ask relevant questions and express appropriate comments.

A copy of the Annual Report will be available to stockholders during the meeting. Further, a copy of the Bank's AFS is posted at the Bank's website.

5. Ratification of the acts of the Board of Directors and Officers

The acts and resolutions of the Board of Directors and its committees were those taken or adopted since the annual stockholders' meeting on April 23, 2020 until April 22, 2021, contracts and transactions entered into by the Bank, credit/loan transactions including to related parties, projects and investments, treasury matters, manpower related decisions/approvals, corporate governance-related actions, and other matters covered by disclosures to the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE). The acts of Management were those taken to implement the resolutions of the Board or its committees or made in the general conduct of business.

6. Election of the Board of Directors (including the Independent Directors)

Any stockholder, including minority stockholders, may submit to the Nomination Committee nominations to the Board of Directors not later than March 5, 2021. The Nomination Committee will determine whether the nominees for the Board, including the nominees for independent directors, have all the qualifications and none of the disqualifications to serve as members of the Board. The profiles of the nominees to the Board will be provided in the Information Statement and in the company website.

7. Election of External Auditor and Fixing of their Remuneration

The Audit Committee will endorse to the stockholders the appointment of the external auditor for the ensuing year as well as its proposed remuneration.

8. Approval of the following –

a. Merger of BPI Family Savings Bank, Inc. into the Bank of the Philippine Islands

The proposed merger of BPI Family Savings Bank, Inc. into Bank of the Philippine Islands approved by the respective Board of Directors on January 20, 2021 will be presented to the stockholders for approval.

b. Increase in Authorized Capital Stock and Corresponding Amendment of Article VII of the Bank's Articles of Incorporation

In relation to the merger, the proposed increase in authorized capital stock, particularly the common stock, from 4.9 billion shares to 5.0 billion shares, and corresponding amendment of Article VII of the Bank's Articles of Incorporation approved by the Board of Directors on February 24, 2021 will be presented to the stockholders for approval.

9. Consideration of Such Other Business as May Properly Come Before the Meeting

The Chairman will open the floor for comments and questions by the stockholders, and take up items included on the agenda received from stockholders in accordance with existing laws, rules and regulations of the Securities and Exchange Commission[1].

10. Adjournment

Upon determination that there are no other matters to be considered, the Chairman upon motion made and duly seconded by a stockholder shall declare the meeting adjourned.

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[1] SEC Memorandum Circular No. 14, series of 2020 or "Shareholders' Right to Put items on the Agenda for Regular/Special Stockholders' Meetings"

BANK OF THE PHILIPPINE ISLANDS
2021 Annual Stockholders Meeting
April 22, 2021

PROXY

The undersigned stockholder of **The Bank of the Philippine Islands** (the "Company") hereby appoints the Chairman of the meeting, as *attorney* and *proxy*, with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on April 22, 2021 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Approval of minutes of previous meeting.
   ❑ Yes ❑ No ❑ Abstain

2. Approval of annual report.
   ❑ Yes ❑ No ❑ Abstain

3. Ratification of the acts of the Board of Directors and Officers.
   ❑ Yes ❑ No ❑ Abstain

4. Election of Directors

   ❑ Vote for all nominees listed below:
   Jaime Augusto Zobel de Ayala
   Fernando Zobel de Ayala
   Romeo L. Bernardo
   Ignacio R. Bunye (Independent)
   Cezar P. Consing
   Ramon R. del Rosario, Jr.
   Octavio V. Espiritu (Independent)
   Rebecca G. Fernando
   Jose Teodoro K. Limcaoco
   Aurelio R. Montinola III
   Mercedita S. Nolledo
   Antonio Jose U. Periquet (Independent)
   Cesar V. Purisima, (Independent)
   Eli M. Remolona, Jr. (Independent)
   Maria Dolores B. Yuvienco (Independent)

   ❑ Withhold authority to vote for all nominees listed above.

   ❑ Withhold authority to vote for the nominees listed below:
   ________________ ________________
   ________________ ________________
   ________________ ________________
   ________________ ________________

5. Election of Isla Lipana & Co. as independent auditors and fixing of their remuneration.
   ❑ Yes ❑ No ❑ Abstain

6. Approval of the following –

   a. Merger of BPI Family Savings Bank, Inc. into the Bank of the Philippine Islands
   ❑ Yes ❑ No ❑ Abstain

   b. Increase in Authorized Capital Stock and Corresponding Amendment of Article VII of the Bank's Articles of Incorporation
   ❑ Yes ❑ No ❑ Abstain

7. At their discretion, the proxies named above are authorized to vote upon such other matters as may properly come before the meeting.
   ❑ Yes ❑ No ❑ Abstain

____
PRINTED NAME OF STOCKHOLDER

____
SIGNATURE OF STOCKHOLDER /
AUTHORIZED SIGNATORY

____
DATE

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **APRIL 12, 2021**, THE DEADLINE FOR SUBMISSION OF PROXIES.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED UPON NOTICE TO THE CORPORATE SECRETARY.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

SECURITIES AND EXCHANGE COMMISSION
MAR 29 2021
MARKET REGULATION DEPT.
BY:
TIME: 10:15

1. Check the appropriate box:

[ ] Preliminary Information Statement

[✔] Definitive Information Statement

2. Name of Registrant as specified in its charter: **BANK OF THE PHILIPPINE ISLANDS**

3. Province, country or other jurisdiction of incorporation or organization: **MANILA, PHILIPPINES**

4. SEC Identification Number: **PW-121**

5. BIR Tax Identification Code: **000-438-366-000**

6. Address of principal office: **Ayala North Exchange Tower 1, 6796 Ayala Ave. cor. Salcedo St., Legaspi Village, Makati City, Metro Manila**
Postal Code: **1229**

7. Registrant's telephone number, including area code: **(632) 8246-5902**

8. Date, time and place of the meeting of security holders: **April 22, 2021, 9:00 a.m., will be conducted virtually via http://www.ayalagroupshareholders.com/**

Online web address/URL
For participation by remote communication: http://www.ayalagroupshareholders.com/
For voting in absentia: http://www.ayalagroupshareholders.com/

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **March 29, 2021**

10. **In case of Proxy Solicitations:**

Name of Person Filing the Statement/Solicitor: Not Applicable

Address and Telephone No.: Not Applicable

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA:

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding **(as of February 28, 2021)**
Common Shares	**4,513,103,261**

12. Are any or all of registrant's securities listed in a Stock Exchange?

Yes ✔ No ____.

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

Philippine Stock Exchange, Inc. - Common Shares

PART I.

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. **Date, time and place of meeting of security holders.**

(a) Date: **April 22, 2021**
Time: **9:00 a.m.**
Place: **will be conducted virtually**

Online web address/URL
For participation by remote communication: http://www.ayalagroupshareholders.com/
For voting in absentia: http://www.ayalagroupshareholders.com/

Registrants' Mailing Address: **Ayala North Exchange Tower 1, 6796 Ayala Avenue cor. Salcedo St., Legaspi Village Makati City, Metro Manila 1229**

(b) Approximate date on which the information statement is first to be sent or given to security holders: **March 29, 2021**

WE ARE NOT ASKING FOR A PROXY AND
YOU ARE REQUESTED NOT TO SEND US A PROXY

Item 2. **Dissenters' Right of Appraisal**

Under Title X of the Revised Corporation Code, shareholders dissenting from and voting against the following corporate actions may demand payment of the fair value of their shares as of the day prior to the date on which the vote was taken for such corporation action: (i) amendment to the Bank's articles and by-laws which has the effect of changing or restricting the rights of any shareholder or class of shares; or authorizing preferences in any respect superior to those of outstanding shares of any class; (ii) sale, lease, mortgage or other disposition of all or substantially all of the Bank's assets; (iii) merger or consolidation; (iv) investment of corporate funds in another corporation or business or for any purpose other than its primary purpose; and (v) extension or shortening of term of corporate existence.

At its regular meeting on January 20, 2021, the Board approved, subject to approval by the Bangko Sentral ng Pilipinas and other appropriate regulatory agencies, Management's recommendation to merge BPI Family Savings Bank, Inc. ("BFSB") into the Bank of the Philippine Islands ("BPI" or the "Bank"). BFSB is a wholly-owned subsidiary of BPI. BFSB's Board of Directors likewise approved the merger of BFSB into the Bank on the same date. The proposed merger will be submitted for approval during the stockholders' meeting and requires approval by stockholders representing at least 2/3 of the outstanding capital stock.

The appraisal right may be exercised by any shareholder who shall have voted against the proposed merger, by making a written demand on the Bank within thirty (30) days after the date on which the vote was taken for payment of the fair market value of such shareholder's shares. The failure to make demand within such period shall be deemed a waiver of the appraisal right. If the proposed merger is implemented or effected, the Bank shall pay the dissenting shareholder, upon surrender of the certificate(s) representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

Item 3. **Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

(a) No current director or officer of the Bank, or nominee for election as director has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon other than election to office.

(b) No director has informed the Bank of his opposition to any action to be taken up at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. **Voting Securities and Principal Holders Thereof**

(a) **Class of Voting Securities** Common Shares
Number of Shares Outstanding as of February 28, 2021: 4,513,103,261
Number of Votes Entitled: One (1) vote per share

(b) **Record Date**

Stockholders of record as of March 05, 2021 are entitled to notice and to vote in the Annual Stockholders' Meeting.

(c) **Manner of Voting**

Article IV of the Amended By-Laws of the Bank states that:

> "Voting for the election of members of the Board of Directors and upon all questions before the stockholders' meeting, shall be by shares of stock, that is, one share entitles the holder thereof to one vote, two shares to two votes, etc.; but in the election of members of the Board of Directors, any stockholder may cumulate his vote as provided for in the Corporation Code.
>
> "In the election of members of the Board of Directors, the fifteen (15) nominees receiving the highest number of votes shall be declared elected."

Article IV of said Amended By-Laws further provides that a stockholder may delegate in writing their right to vote, provided the said proxy is attested by two (2) witnesses and filed with the Bank at least ten (10) days before the meeting. Voting shall be by shares and not per capita.

Pursuant to Sections 57 and 23 of the Revised Corporation Code, which allow voting by remote communication or *in absentia* by stockholders, on February 24, 2021 the Board of Directors of the Bank authorized voting through remote communication or *in absentia* during meetings of the stockholders of the Bank, subject to compliance with the rules and regulations as may be issued by the Securities and Exchange Commission. The requirements and procedures for electronic voting *in absentia* or via absentee ballot are provided in Annex "A-2" and the Bank's website.

(d) **Security Ownership of Certain Record and Beneficial Owners and Management**

i. Security Ownership of Certain Record and Beneficial Owners of more than 5% as of February 28, 2021

Title of Class	Name/Address of Record Owner & Relationship with Issuer	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	No. of Shares	Percent of Holdings
Common	**PCD Nominee Corporation**[1] **- Non-Filipino** **- Filipino** 37/F Tower 1, The Enterprise Center 6766 Ayala Avenue corner Paseo de Roxas, Makati City	PCD Participants acting for themselves or for their customers	Various Filipino	926,468,816 746,516,521 1,672,985,337	20.5284% 16.5410% 37.0694%

[1] PCD Nominee Corporation (PCD), Non-Filipino and Filipino, is the registered owner of the shares beneficially owned by its participants. The Board of Directors of each participant generally has the power to decide on how shares are to be voted. Out of the 1,672,985,337 common shares registered in the name of PCD, 379,139,695 shares or 8.4009% and 465,309,887 shares or 10.3102% are for the accounts of Deutsche Bank Manila and The Hongkong and Shanghai Banking Corporation, respectively.

Title of Class	Name/Address of Record Owner & Relationship with Issuer	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	No. of Shares	Percent of Holdings
Common	**Ayala Corporation**[2] 33rd Floor Ayala Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City Stockholder	Ayala Corporation[3]	Filipino	1,000,261,934	22.1635%
Common	**Liontide Holdings, Inc.**[4] 33rd Floor Ayala Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City Stockholder	Liontide Holdings, Inc.[5]	Filipino	904,194,682	20.0349%
Common	**AC International Finance Limited** c/o Ayala Corporation 34th Floor Ayala Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City Stockholder	Ayala Corporation[6]	Cayman Islands	390,269,162	8.6475%
Common	**Roman Catholic Archbishop of Manila** 121 Arzobispo St., Intramuros Manila Stockholder	Roman Catholic Archbishop of Manila[7]	Filipino	327,904,251	7.2656%

ii. Security Ownership of Directors and Management as of February 28, 2021

Title of Class	Name of Beneficial Owner	Position	No. of Shares	Nature of Ownership	Citizenship	% of Holdings
Common	Jaime Augusto Zobel de Ayala	Chairman	9,628	Direct	Filipino	0.000%
Common	Fernando Zobel de Ayala	Vice-Chairman	89,137	Direct	Filipino	0.002%
Common	Cezar P. Consing	Director & President	2,809,099	Direct	Filipino	0.062%
Common	Romeo L. Bernardo	Director	12	Direct	Filipino	0.000%
Common	Ignacio R. Bunye	Director	133,452	Direct	Filipino	0.003%
Common	Ramon R. del Rosario, Jr.	Director	2,287	Direct	Filipino	0.000%
Common	Octavio V. Espiritu	Director	1,225,110	Direct	Filipino	0.027%
Common	Rebecca G. Fernando	Director	20	Direct	Filipino	0.000%
Common	Jose Teodoro K. Limcaoco	Director	11,416	Direct/Indirect	Filipino	0.000%
Common	Aurelio R. Montinola III	Director	1,794,863	Direct	Filipino	0.040%
Common	Mercedita S. Nolledo	Director	59,502	Direct	Filipino	0.001%
Common	Antonio Jose U. Periquet	Director	25,221	Direct	Filipino	0.001%
Common	Cesar V. Purisima	Director	10	Direct	Filipino	0.000%
Common	Eli M. Remolona, Jr.	Director	10	Direct	Filipino	0.000%
Common	Maria Dolores B. Yuvienco	Director	5,813	Direct	Filipino	0.000%
Common	Ma. Theresa M. Javier	EVP & CFO	277,994	Direct	Filipino	0.006%
Common	Ramon L. Jocson	EVP & COO	63,783	Direct	Filipino	0.000%
Common	Marie Josephine M. Ocampo	EVP	286,692	Direct	Filipino	0.006%
Common	Juan Carlos L. Syquia	EVP	1,982	Direct	Filipino	0.000%
Aggregate Shareholdings of Directors & Officers as a Group			**6,796,031**			**0.151%**

None of the members of the Bank's Board of Directors and Management owns 2.0% or more of the outstanding capital stock of the Bank.

iii. Voting Trust Holders of 5% or More

Ayala Corporation has a Voting Trust Agreement with AC International Finance Limited.

iv. Changes in Control

[2] Mermac, Inc. owns 47.2774% of common shares and 56.7314% of total voting shares, while Mitsubishi Corporation owns 6.0202% of common shares and 6.9273% of total voting shares, respectively, of the outstanding shares of Ayala Corporation (AC).
[3] The Board of Directors of AC has the power to decide how AC's shares in BPI are to be voted.
[4] AC owns 84.16% of the outstanding shares of Liontide Holdings, Inc. (formerly Ayala DBS Holdings, Inc.), which translates to 78.07% effective ownership.
[5] The Board of Directors of Liontide Holdings, Inc. ("Liontide") has the power to decide how Liontide's shares in BPI are to be voted.
[6] Under a Voting Trust Agreement dated October 12, 2017, the Board of Directors of AC International Finance Limited (AC International) has the power to decide how AC International's shares in BPI are to be voted. AC International Finance Limited is a 100%-owned subsidiary of Ayala Corporation.
[7] The Archbishop of Manila has the power to decide how the Roman Catholic Archbishop of Manila's shares in BPI are to be voted.

No change of control in the Bank has occurred since the beginning of its last fiscal year.

(e) **Certain Relationships and Related Party Transactions**

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

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.

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

Significant related party transactions and outstanding balances as at and for the year ended December 31, 2020 are summarized below:

<u>Consolidated</u>

	2020		
	Transactions	Outstanding Balances	Terms and Conditions
	(In Millions of Pesos)		
Loans and Advances from:			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) and with maturity periods ranging from 5 days to 15 years.
Subsidiaries	131	189	
Associates	159	509	
Ayala Group	16,624	76,509	
Other related parties	23,424	24,160	
	40,338	101,367	
Deposits from:			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%
Subsidiaries	(1,804)	7,942	
Associates	(626)	1,277	
Ayala Group	5,463	18,750	
Key management personnel	(454)	783	
	2,579	**28,752**	

A more detailed discussion on related party transactions can be found in Note 25 of the 2020 Audited Financial Statements.

Item 5. **Directors and Executive Officers**

(a) **Board of Directors**

Article V of the Bank's Amended By-Laws provides:

> "Unless otherwise provided in the Corporation Law, the corporate powers of the Bank are exercised, its business conducted and its properties controlled and held, by a Board of Directors consisting of fifteen (15) members elected from among the stockholders of the Bank, said members so elected to hold their office for one year and until their successors are elected annually by the stockholders during their annual meeting or adjournment thereof, or at any special meeting called for that purpose."

The attendance of the directors at the meetings of the Board of Directors held during the year 2020 is as follows:

Name	No. of Meetings Attended/Held	Percent Present
Jaime Augusto Zobel de Ayala	15/15	100%
Fernando Zobel de Ayala	15/15	100%
Cezar P. Consing	15/15	100%
Gerardo C. Ablaza, Jr.*	3/3	100%
Romeo L. Bernardo	14/15	93%
Ignacio R. Bunye	15/15	100%
Octavio V. Espiritu	15/15	100%
Rebecca G. Fernando	15/15	100%
Jose Teodoro K. Limcaoco	15/15	100%
Xavier P. Loinaz**	10/10	100%
Aurelio R. Montinola III	14/15	93%
Mercedita S. Nolledo	15/15	100%
Antonio Jose U. Periquet	15/15	100%
Eli M. Remolona, Jr.	15/15	100%
Ramon R. Del Rosario, Jr.***	12/12	100%
Maria Dolores B. Yuvienco	15/15	100%

**Board member until 22 April 2020*
***Resigned as a Board Member effective 21 October 2020*
****Elected as Board member effective 23 April 2020*

(b) **Board Committees**

The Board carries out its various responsibilities through the Executive Committee and delegates specific responsibilities to other committees that focus on certain areas as allowed by law. The different committees of the Board and its membership are as follows:

Name	Executive Committee	Corporate Governance Committee	Nomination Committee	Audit Committee	Risk Management Committee	Personnel and Compensation Committee	Retirement/ Pension Committee	Related Party Transaction Committee
Jaime Augusto Zobel de Ayala	C		M					
Fernando Zobel de Ayala	VC		M			C		
Cezar P. Consing	M							
Romeo L. Bernardo				M******				
Ignacio R. Bunye*		C****				M		C
Ramon R. del Rosario			M					
Octavio V. Espiritu**				M	C			
Rebecca G. Fernando	M						M	M
Jose Teodoro K. Limcaoco	M							
Xavier P. Loinaz***			M	C				
Aurelio R. Montinola III	M				M	M		
Mercedita S. Nolledo		M					C	
Antonio Jose U. Periquet*	M		C			M	M	
Eli M. Remolona, Jr.*					M			
Maria Dolores B. Yuvienco*		M*****		C****		M		M

C – Chairman; VC – Vice-Chairman; M – Member
** Independent Director*
*** Lead Independent Director*
**** Resigned effective as of 21 October 2020*
*****Chairman effective 21 October 2020*
******Chairman until 20 October 2020*
*******Member from 21 October 2020*

(c) **The Board of Directors/Nominees for Election at the Annual Stockholders' Meeting and Key Executive Officers**

Per Article V of the Amended By-Laws of the Bank, all nominations for election as Directors by the stockholders shall be submitted in writing to the Board of Directors through the Corporate Secretary, together with the written acceptance of the nominee, not later than the date prescribed by law, rules and regulations or at such earlier or later date as the Board of Directors may fix. No nominee shall qualify to be elected as Director unless this requirement is complied with. In accordance with the resolution of the Board of Directors of the Bank dated December 16, 2020, which resolution was disclosed and reported to PSE and SEC, all nominations for election of Directors for the term 2021-2022 were required to be submitted to the Corporate Secretary not later than March 05, 2021.

As of said date, there were only 15 nominees to the Board received by the Corporate Secretary and all the nominees confirmed their acceptance of said nomination. Ms. Rebecca G. Fernando was nominated by the Roman Catholic Archbishop of Manila and the rest of the nominees were formally nominated by Ms. Josenia Jessica D. Nemeño, a long time stockholder of BPI who is not related to any of the nominees including the nominees for independent director. The nominations were subsequently processed and evaluated by the Nomination Committee of the Bank in a meeting called for that purpose and it was determined by the Committee that all the nominees (both regular Directors and Independent Directors) possess all the qualifications required by relevant law, rules, regulations and BPI's By-Laws and Manual on Corporate Governance and no provision on disqualification would apply to any of them. In connection with the nomination or Mr. Octavio V. Espiritu and Mr. Antonio Jose U. Periquet as independent directors, beyond the maximum cumulative term for Independent Directors, reckoned from 2012, the Bank's Board endorsed the extension of their term of service as independent directors, to allow the Bank to draw on their leadership roles, experience and expertise, especially in light of the COVID-19 pandemic, and significant developments at the Bank including the proposed merger of BPI Family Savings Bank, Inc. into the Bank.

The following is the list of current directors and the list of nominees for election as members of the Board of Directors of BPI for the term 2021-2022 as approved by the Nomination Committee:

i. Current Board of Directors

Name	Age (as of 2021 ASM)	Citizenship
1. Jaime Augusto Zobel de Ayala	62	Filipino
2. Fernando Zobel de Ayala	61	Filipino
3. Cezar P. Consing	61	Filipino
4. Romeo L. Bernardo	66	Filipino
5. Ignacio R. Bunye (Independent Director)	76	Filipino
6. Ramon R. del Rosario	76	Filipino
7. Octavio V. Espiritu (Independent Director)	77	Filipino
8. Rebecca G. Fernando	72	Filipino
9. Jose Teodoro K. Limcaoco	59	Filipino
10. Aurelio R. Montinola III	69	Filipino
11. Mercedita S. Nolledo	80	Filipino
12. Antonio Jose U. Periquet (Independent Director)	60	Filipino
13. Cesar V. Purisima (Independent Director)	61	Filipino
14. Eli M. Remolona, Jr. (Independent Director)	68	Filipino
15. Maria Dolores B. Yuvienco (Independent Director)	73	Filipino

ii. Nominees for Election to the Board of Directors for the Term 2021-2022

Name	Age (as of 2021 ASM)	Citizenship
1. Jaime Augusto Zobel de Ayala	62	Filipino
2. Fernando Zobel de Ayala	61	Filipino
3. Cezar P. Consing	61	Filipino
4. Romeo L. Bernardo	66	Filipino
5. Ignacio R. Bunye (Independent Director)	76	Filipino
6. Ramon R. del Rosario, Jr.	76	Filipino
7. Octavio V. Espiritu (Independent Director)	77	Filipino
8. Rebecca G. Fernando	72	Filipino
9. Jose Teodoro K. Limcaoco	59	Filipino
10. Aurelio R. Montinola III	69	Filipino
11. Mercedita S. Nolledo	80	Filipino
12. Antonio Jose U. Periquet (Independent Director)	60	Filipino
13. Cesar V. Purisima (Independent Director)	61	Filipino
14. Eli M. Remolona, Jr. (Independent Director)	68	Filipino
15. Maria Dolores B. Yuvienco (Independent Director)	73	Filipino

The following is the list of Key Executive Officers of BPI:

The Key Executive Officers (As of 2021 ASM)			
Name	Rank/Title	Age	Citizenship
1. Cezar P. Consing	President & CEO	61	Filipino
2. Maria Theresa M. Javier	EVP & CFO	50	Filipino
3. Ramon L. Jocson	EVP & COO	61	Filipino
4. Juan Carlos L. Syquia	EVP	54	Filipino
5. Marie Josephine M. Ocampo	EVP	59	Filipino

None of the above-named Directors and Officers of the Bank works for the government.

Please refer to attached Annex "A" for the brief background of the Directors/Nominees and Executive Officers of BPI.

(d) **Significant Employees**

The Bank values its human resources and considers its entire workforce as significant employees. It expects each employee to do his share in achieving the company's set goals and objectives.

(e) **Family Relationships**

The Chairman of the Board of Directors, Mr. Jaime Augusto Zobel de Ayala, and Mr. Fernando Zobel de Ayala, the Vice-Chairman of the Board, are brothers.

(f) **Legal Proceedings**

To the knowledge of the Bank, none of its nominees for election as Directors and its Executive Officers have been subject of the following legal proceedings during the last five (5) years:

i. any bankruptcy petition filed by or against any business of which such director or officer was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
ii. any conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign;
iii. any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
iv. being found by domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading, market or self-regulatory organization, to have violated a securities or commodities law or regulation and the judgment has not been reversed, suspended, or vacated.

(g) **Resignation of Directors**

To date, no director has resigned from, or declined to stand for election or re-election to the Board since the date of the 2020 annual meeting of stockholders due to any disagreement with the Bank relative to its operations, policies and practices.

Item 6. **Compensation of Directors and Executive Officers**

(a) **Executive Compensation**

Names arranged By Rank/ By Surname	**Position**	**2019**		
		Salary	**Bonuses**	**Fees and Other Compensation**
Cezar P. Consing	President & CEO			
Maria Theresa M. Javier	EVP & CFO			
Ramon L. Jocson	EVP & COO			
Antonio V. Paner	EVP & Treasurer			
Juan Carlos L. Syquia	EVP			
All above-named Officers as a group		**160,300,573**	**82,552,300**	
All other unnamed Officers as a group		**8,722,777,830**	**1,010,488,922**	
All Directors				**69,630,000***

Names arranged By Rank/ By Surname	Position	2020		
		Salary	Bonuses	Fees and Other Compensation
Cezar P. Consing	President & CEO			
Maria Theresa M. Javier	EVP & CFO			
Ramon L. Jocson	EVP & COO			
Marie Josephine M. Ocampo	EVP			
Juan Carlos L. Syquia	EVP			
All above-named Officers as a group		**158,818,822**	**95,507,700**	
All other unnamed Officers as a group		**10,075,502,316**	**1,277,868,000**	
All Directors				**83,939,863***

Names arranged By Rank/ By Surname	Position	2021 Estimates		
		Salary	Bonuses	Fees and Other Compensation
Cezar P. Consing	President & CEO			
Maria Theresa M. Javier	EVP & CFO			
Ramon L. Jocson	EVP & COO			
Marie Josephine M. Ocampo	EVP			
Juan Carlos L. Syquia	EVP			
All above-named Officers as a group		**151,168,246**	**86,007,700**	
All other unnamed Officers as a group		**9,060,788,425**	**1,037,313,500**	
All Directors				**99,280,000***

*includes P27M, P27M, P35M for the years 2019, 2020 and 2021 respectively representing per diem of Directors at P70K per Board meeting and P30K per Committee meetings attended.

(b) **Compensation of Directors**

Article V of the Bank's Amended By-Laws provides:

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

The Personnel and Compensation Committee of the Bank shall have the responsibility for recommending to the Board of Directors the fees and other compensation for directors. In discharging this duty, the Committee shall be guided by the objective of ensuring that compensation should fairly pay directors for work required in a company of the Bank's size and scope."

For 2020, the Board of Directors' fees and other compensation amounted to P83.939M, which was equivalent to less than 1% of the Bank's net income before tax.

(c) **Standard Arrangement**

Other than the usual per diem arrangement for Board and Board Committee meetings and the abovementioned fees and compensation of Directors, there is no Standard Arrangement with regards to compensation of directors, directly or indirectly for any other services provided by the said directors, for the last completed fiscal year.

Item 7. **Independent Public Accountants**

(a) The principal accountant of the Bank for the fiscal year 2020 is the accounting firm of Isla Lipana & Co. The same accounting firm is being recommended for re-election at the Annual Stockholders' Meeting of the Bank. Pursuant to the General Requirements of SRC Rule 68, Par. 3 (Qualifications and Reports of Independent Auditors), the Bank has engaged Isla Lipana & Co., as the external auditor with Mr. John-John Patrick V. Lim as the Partner-in-Charge.

The appointment or re-appointment of the Bank's external auditor is subject to the approval and endorsement by the Audit Committee, for subsequent confirmation and approval by the Board of Directors and finally the Stockholders.

The Audit Committee of BPI, as of 21 October 2020, is chaired by Ms. Maria Dolores B. Yuvienco (Independent Director), with the following members: Mr. Romeo L. Bernardo and Mr. Octavio V. Espiritu (Independent Director).

(b) Representatives of Isla Lipana & Co. are expected to be present at the Annual Stockholders' Meeting. They will have the opportunity to make a statement if they desire to do so and they are expected to be available to respond to appropriate questions and to count and/or validate the votes, if needed, during the Annual Stockholders' Meeting.

(c) Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no disagreements with Isla Lipana & Co. on accounting and financial disclosures.

(d) Audit and Audit-Related Fees

BPI has paid the following fees, inclusive of taxes, to its external auditors in the past two (2) years:

Fiscal Year	Audit Fees	Audit-related Fees
2018 paid in 2019 PFRS Validation	₱13.915 M ₱ 5.500 M	₱ 2.535 M
2019 paid in 2020 Bond Offerings	₱18.210 M ₱ 1.250 M	₱ 3.559 M ₱203.161 K
Approved for 2020 (not yet paid)	₱18.340 M	-

The audit and audit-related fees cover services by the external auditor that are reasonably related to the performance of the audit or review of the annual, half year or quarter end financial statements for BPI and its subsidiaries. There were no non-audit fees for other services not related to the audit/review of the financial statements.

Item 8. **Compensation Plans**

As provided for in Article VII of the Bank's Amended Articles of Incorporation, not more than one and one half percent (1½%) of the authorized capital stock of BPI is set aside for an Executive Stock Option Plan (ESOP) and another one and one half percent (1½%) for Executive Stock Purchase Plan (ESPP) for employees and officers of BPI and its subsidiaries, over which shares the stockholders shall have no pre-emptive rights. Said provision was approved by the Bangko Sentral ng Pilipinas, Securities and Exchange Commission and the Stockholders.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. **Authorization or Issuance of Securities Other than for Exchange**

At its meeting on February 24, 2021, in relation to the proposed merger of BPI Family Savings Bank, Inc. to the Bank, the Board approved the increase in the Bank's authorized capital stock, particularly the common stock, by 100 million shares, or from the current level of 4.9 billion shares to 5 billion shares, with a par value of Ten Pesos (P10.00) per share, and the amendment of Article Seventh of the Bank's Amended Articles of Incorporation to reflect the foregoing increase in authorized capital stock. The additional common shares will be subject to the same rights and privileges as the existing common shares. There will be no pre-emptive rights for the additional common shares to be issued pursuant to the merger. The determination of the number of BPI common shares that will be issued pursuant to the merger in exchange for such assets and liabilities of BFSB is set out in Article II of the attached Plan of Merger. After approval by the stockholders, the manner by which the proposed increase in authorized capital stock will be implemented, will be duly disclosed to the stockholders and to the Commission in accordance with applicable disclosure requirements.

Item 10. **Modification or Exchange of Securities**

There are no matters or actions to be taken up in the meeting with respect to the modification of any class of the Company's securities or the issuance of authorization for issuance of one class of the Company's securities in exchange for outstanding securities of another class.

Item 11. **Financial and Other Information**

The management's discussion and analysis, market price of shares and dividends and other data related to the Company's financial information and the Statement of Management's Responsibility for Financial Statements including the audited financial statements as of December 31, 2020, are attached hereto as Annexes "A-1" and "B".

Item 12. **Mergers, Consolidations, Acquisitions and Similar Matters**

a. Name, address and telephone number of the principal executive office

The name, address, and telephone number of the principal executive office shall be that of Registrant, Bank of the Philippine Islands ("BPI"), as provided under page 2 of this Information Statement.

b. A brief description of the general nature of the business conducted by the other person

BPI Family Savings Bank, Inc. ("BFSB") is BPI's flagship platform for retail lending, in particular, housing and auto loans. It is also one of BPI's primary vehicles for retail deposits.

c. Summary of the material features on the proposed merger transactions

The merger was approved by the respective Board of Directors of BPI and BFSB on 20 January 2021, subject to the approval of shareholders, and the approval of merger regulators including the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC). The Plan of Merger, subsequently approved by the Board of Directors on 24 February 2021, is attached as Annex "C" of this Information Statement. BFSB shall merge with BPI and BPI as the surviving corporation of the merger shall continue its corporate existence under the laws of the Republic of the Philippines. The separate existence of BFSB shall terminate on the effective date of the merger which shall be the latter of (1) SEC issuance of the Certificate of Merger or (2) 01 January 2022. Prior to the merger, BPI and BFSB shall conduct their respective business substantially as previously conducted.

The proposed merger transaction will help realize the following objectives: (1) rationalization of the branch network in light of ongoing digitalization, (2) alignment with BPI group strategy, and (3) improved operational efficiency.

BPI shall issue shares pursuant to the merger, based on the Net Asset Value of BFSB as of 31 December 2020, divided by the share price of BPI as of 29 December 2020.

Refer to "Exhibit 1 – Accounting Treatment of the Transaction".

d. A brief statement as to dividends on arrears or defaults in principal or interest in respect of any security of the registrant or of such other person and as to the effect of the transaction thereon and such other information as may be appropriate in the particular case to disclose adequately the nature and effect of the proposed action

There are no dividends in arrears accruing to the stockholders of BPI and BFSB.

e. In comparative columnar form, on a historical and, if material, a pro forma basis, the following information for the registrant and the other person for the last two fiscal years

	BPI Conso		BPI Parent		BFB	
In Millions	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**
Total Revenues	92,262	101,923	77,569	88,335	11,681	13,490
Income from continuing operations	28,803	21,409	26,218	24,611	4,071	2,361
Long term debt	150,837	151,947	126,529	140,348	9,510	9,545

**BPI Conso includes BPI Parent, BFSB and other subsidiaries of BPI*

f. In comparative columnar form, on a historical and, if material, a pro forma basis, the following information for the registrant and the other person for the last two fiscal years

	BPI Conso		BPI Parent		BFB	
	2019	2020	2019	2020	2019	2020
Book value per share	59.8	62.0	48.0	51.2	3,423.9	3,304.3
Cash dividends declared per share	0.9	0.9	0.9	0.9	300	300
Earnings per share	6.39	4.74	5.82	5.45	407.13	236.13

**BPI Conso includes BPI Parent, BFSB and other subsidiaries of BPI*

g. A statement as of whether any regulatory requirement must be complied with or approval must be obtained in connection with the transaction and, if so, the status of such compliance or approval

The merger transaction shall be presented for approval of BPI stockholders during its Annual Shareholders Meeting in April 2021. Thereafter, BPI shall seek approval from the BSP, PDIC, and the SEC.

h. If a report, opinion or appraisal materially relating to the transaction has been received from an outside party, and such report, opinion or appraisal is referred to in the proxy statement, furnish the following information:

There are no reports, opinions or appraisals related to the merger that have been received from an outside party as of to date, however, BPI has engaged an independent third party consultant, FTI Consulting Philippines Inc. (FTI Consulting), to render a fairness opinion and valuation services with respect to BFSB and the number of BPI shares to be issued in relation to the merger transaction.

FTI Consulting is a corporate finance advisory firm that offers a wide array of services including valuation, transaction advisory, and mergers and acquisitions. With its stable of experienced corporate finance professionals, FTI has the requisite independence, resources, and skills to properly undertake this engagement.

FTI Consulting is accredited by the Philippine Stock Exchange ("PSE") for purposes of issuing fairness opinions and valuation reports of listed companies and prospective initial listing applicants of the PSE in accordance with the PSE Memorandum on Guidelines for Fairness Opinions and Valuation Reports (No. 2011-0104). FTI Consulting is also accredited by the SEC as a Professional Services Organization ("PSO") in accordance with SEC Memorandum Circular No. 2, Series of 2014.

FTI Consulting was selected based on the qualifications of the principals, the company's record in issuing fairness opinions and valuation reports, and accreditation with the PSE and the SEC.

There are no material relationship between the outside party or its affiliates and the issuer which existed during the past 2 years or is mutually understood to be contemplated and any compensation received or to be received as a result of such.

FTI valuation process is in progress and is expected to submit the report before the BPI annual stockholders meeting.

i. A description of any past, present or proposed material contract, arrangement, understanding, relationship, negotiation or transaction during the past two fiscal years between the other person or its affiliates and the registrant or its affiliates such as those concerning a merger, consolidation or acquisition; a tender offer or other acquisition of securities; an election of directors; or a sale or other transfer of a material amount of assets.

None.

j. As to each class of securities of the registrant or of the other person which is trading on an exchange or with respect to which a market otherwise exists, state the high and low sale prices as of the date, which shall be specified, preceding public announcement of the proposed transaction, or if no such public announcement was made, as of the date, which shall be specified, preceding the day the agreement or resolution with respect to the action was made.

Date of public announcement of the merger: 20 January 2021

BPI Share Price, as of closing of 20 January 2021: Php83.20
Past 12 months, highest closing price: Php88.60
Past 12 months, lowest closing price: Php51.40
Average past 12 months, closing price: Php71.63

BFSB Share Price: Not listed

k. A statement as to whether or not representatives of the principal accountants for the current year and for the most recently completed fiscal year:
   i. are expected to be present at the security holders' meeting;
   ii. will have the opportunity to make a statement if they desire to do so; and
   iii. are expected to be available to respond to appropriate questions

   Representatives of Isla Lipana and Co., external auditors of both BPI and BFSB are expected to be present in the shareholders' meeting and will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

l. Furnish the information specified below for the registrant (BPI) and for the other person (BFSB):

   i. Information required by Part 1, paragraphs (A), (B), and (C) of "Annex C "

      For BPI, refer to "Annex A-1 - Description of Business" of this Information Statement.

      For BFSB, refer to "Exhibit 2 - PART I".

   ii. Information required by Part II, paragraph (A) of "Annex C", market price of and dividends on the registrants' common equity and related stockholder matters

      For BPI, refer to "Annex A-1 – Market Information and Dividends" of this Information Statement

      For BFSB, refer to "Exhibit 2 - PART II".

   iii. Financial statements meeting the requirements of SRC Rule 68.

      For BPI, refer to "Annex B - BPI Audited Financial Statements".

      For BFSB, refer to "Exhibit 3 - BFSB Audited Financial Statements".

   iv. Information required by Part III, paragraphs (A) and (B) of "Annex C"

      For BPI, refer to "Annex A-1 – Management Discussion and Analysis of Financial Condition and Results of Operations" of this Information Statement.

      For BFSB, refer to "Exhibit 2 - PART III".

   v. Information required by Part IV, paragraph (A) of "Annex C", directors, executive officers, promoters

      For BPI, refer to "Part 1 – Control and Compensation Information" of this Information Statement.

      For BFSB, refer to "Exhibit 2 - PART IV".

Item 13. **Acquisition or Disposition of Property**

There are no matters or actions to be taken up in the meeting with respect to material acquisition or disposition of any property by the Company.

Item 14. **Restatement of Accounts**

There are no matters or actions to be taken up in the meeting with respect to restatement of accounts.

D. OTHER MATTERS

Item 15. **Action with Respect to Reports**

The following are to be submitted for approval during the stockholders' meeting:

(a) Approval of the Minutes of the Annual Meeting of the Stockholders on April 23, 2020, containing:

(i) Approval of Minutes of Annual Stockholders' Meeting on April 25, 2019 per the following resolution:

Resolution No. ASM-2020-01

RESOLVED, that the minutes of the annual meeting of Stockholders of the Bank of the Philippine Islands held on 25 April 2019, be and, are hereby, approved as recorded.

(ii) Approval of Annual Report and the Bank's Audited Financial Statements as of 31 December 2019 incorporated in the Annual Report.

Resolution No. ASM-2020-02

RESOLVED, that the Annual Report of the Bank be noted, and the 2019 Audited Financial Statements incorporated in the said Annual Report be, and are hereby approved.

(iii) Election of Board of Directors per the following resolution:

Resolution No. ASM-2020-03

RESOLVED, that there being only 15 nominees for the 15 Board seats, votes be cast in favor of the said nominees and that they be declared elected as members of the Board of Directors of BPI for the year 2020-2021 and until their successors are duly elected and qualified.

(iv) Election of External Auditors and Fixing of their Remuneration per the following resolution:

Resolution No. ASM-2020-04

RESOLVED, that the re-election of Isla Lipana & Co. as the External Auditors of BPI and its major subsidiaries and affiliates for the current fiscal year for a fee of P18.34 Million be, and is hereby, approved.

(b) Approval of the Annual Report and the Bank's Audited Financial Statements as of December 31, 2020 containing the performance of the Bank and its financial condition.

The Audited Financial Statements as of December 31, 2020 will be presented for approval of the stockholders.

(c) Election of the Board of Directors (Including the Independent Directors)

The members of the Board of Directors (regular and independent) of the Bank for the term 2021-2022 are to be elected at the Annual Stockholders' Meeting to hold office until the next succeeding annual meeting, and/or until their respective successors have been duly elected and qualified.

(d) Election of External Auditors and Fixing of their Remuneration

The Accounting Firm of Isla Lipana & Co. is proposed to be re-elected as the Bank's External Auditors for the Fiscal year 2021, at the remuneration agreed upon between BPI Management and the External Auditors.

Item 16. **Matters Not Required to be Submitted**

All matters or actions that will require the vote of the security holders will be submitted in the meeting.

Item 17. **Amendment of Charter, By-Laws or Other Documents**

The proposal to increase the Bank's authorized capital stock and amendment to Article VII of its Articles of Incorporation will be submitted to the stockholders for approval.

Upon approval by the stockholders, the Amended Articles of Incorporation of the Bank will reflect the following underscored changes:

"**SEVENTH.** – That the Capital Stock of the Corporation is <u>Fifty Billion Six Hundred Million Pesos (P50,600,000,000.00)</u> divided into:

Common Stock consisting of <u>Five Billion (5,000,000,000)</u> shares with a par value of Ten Pesos (P10.00) per share, not more than one and one half percent (1 ½%) of which is set aside for an Executive Stock Option Plan and another one and one half percent (1 ½%) for a Stock Purchase Plan for Employees and Officers of BPI and its Subsidiaries, over which shares the stockholders shall have no pre-emptive rights;

Preferred Stock consisting of Sixty Million (60,000,000) Preferred "Ä" shares with a par value of Ten Pesos (P10.00) per share."

The amendment to the articles of incorporation – increase in authorized capital is related to the proposed merger of BPI Family Savings Bank, Inc. to Bank of the Philippine Islands.

Item 18. **Other Proposed Action**

(a) Merger of BPI Family Savings Bank, Inc. into the Bank of the Philippine Islands

The proposed merger/Plan of Merger of BPI Family Savings Bank, Inc. into Bank of the Philippine Islands will be presented to the stockholders for approval.

(b) Increase in Authorized Capital Stock and Amendment of Article VII of the Bank's Articles of Incorporation

The proposed increase in authorized capital stock and corresponding amendment of Article VII of the Bank's Articles of Incorporation will be presented to the stockholders for approval.

Item 19. **Voting Procedures**

(a) Vote Required for Approval or Election

The election of directors will be by plurality of votes and every stockholder shall be entitled to cumulate his votes.

Approval of the increase in authorized capital stock and amendment of Article VII of the Articles of Incorporation, and merger of BPI Family Savings Bank, Inc. into BPI will need the affirmative vote of at least two-thirds (2/3) of the outstanding capital stock.

Approval of matters required to be acted upon will need the affirmative vote of at least a majority of the issued and outstanding stock entitled to vote and represented at the meeting.

(b) Method by which the Votes will be Counted

Votes will be counted by shares and not per capita. Each outstanding share of stock entitles the registered holder to one vote. Any stockholder may cumulate his vote as provided in the Corporation Code for purposes of election of the members of the Board. All votes received shall be tabulated by the Office of the Corporate Secretary and the results will be validated by the Bank's external auditor. In light of the Regulations (as defined in Item 19(c), stockholders will only be allowed to vote by appointing the Chairman of the meeting as proxy or electronically *in absentia*.

(c) Participation of Shareholders by Remote Communication

To comply with applicable regulations prohibiting mass gatherings, identifying authorized persons outside residence, and/or requiring social distancing to prevent the spread of COVID-19 (the "Regulations") and to ensure the safety and welfare of our stockholders, the Bank will dispense with the physical attendance of stockholders at the meeting and will allow attendance only by remote communication, as set forth below, and by voting in absentia, as provided in Items 4(c) and 19(b) above, or voting through the Chairman of the meeting as proxy.

The live webcast of the meeting shall be accessible through the following online web address: http://www.ayalagroupshareholders.com/. To enable the Bank to perform validation procedures, identify the shareholders participating by remote communication and record their presence for purposes of quorum, the shareholders shall inform the Bank by email to bpi-asm@bpi.com.ph on or before April 12, 2021, of their participation in the meeting by remote communication. Stockholders may email questions or comments prior to or during the meeting at the following email address: bpi-asm@bpi.com.ph. The detailed instructions for participation through remote communication are set forth in Annex "A-2".

Item 20. **Management Report - Annex "A-1"**

Item 21. **Statement of Management's Responsibility and Audited Financial Statements – Annex "B"**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on the 17th day of March 2021.

BANK OF THE PHILIPPINE ISLANDS

by : (Sgd.) ANGELA PILAR B. MARAMAG
Corporate Secretary

ANNEX "A"

THE NOMINEES TO THE BPI BOARD OF DIRECTORS FOR THE TERM 2021-2022

1. **JAIME AUGUSTO ZOBEL DE AYALA,** Filipino, 62 years old, has been a member of the Board of Directors (Non-Executive Director) of BPI since March 1990 and Chairman since March 2004. He is currently Chairman of the Bank's Executive Committee and member of the Nomination Committee. Mr. Zobel served as Vice-Chairman from 1995 to March 2004.

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

   Outside the Ayala group, he is a member of various international and local business and socio-civic organizations, including the JP Morgan International Council, JP Morgan Asia Pacific Council and Mitsubishi Corporation International Advisory Council. He sits on the board of the Singapore Management University and on various advisory boards of Harvard University, including the Global Advisory Council, HBS Board of Dean's Advisors, and HBS Asia-Pacific Advisory Board, which he chairs. He is Chairman Emeritus of the Asia Business Council, a member of the Global Board of Adviser of the Council on Foreign Relations, and Co-Vice Chairman of the Makati Business Club, Chairman of Endeavor Philippines, and a board member of Eisenhower Fellowships.

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

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

2. **FERNANDO ZOBEL DE AYALA,** Filipino, 61 years old, has been a member of the Board of Directors (Non-Executive Director) of BPI since October 1994 and was elected Vice Chairman in April 2013. He also serves as Chairman of the Bank's Personnel and Compensation Committee, Vice-Chairman of the Executive Committee, and member of the Nomination Committee. He is also a member of the Board of BPI Asset Management and Trust Corporation and Chairman of the Board of Trustees of BPI Foundation, Inc.

   Mr. Zobel is the President and Chief Operating Officer of Ayala Corporation, Chairman of Ayala Land, Inc., and AC Energy Philippines, Inc. He is a Director of Globe Telecom, Inc. and Integrated Micro- Electronics, Inc.; and serves as an Independent Director of Pilipinas Shell Petroleum Corporation.

   He is the Chairman of AC International Finance Ltd., Liontide Holdings, Inc., AC Energy, Inc., Ayala Healthcare Holdings, Inc., Automobile Central Enterprise, Inc., Alabang Commercial Corporation, Accendo Commercial Corp. and Hero Foundation, Inc.; Co- Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc. He is the Vice-Chairman of AC Industrial Technology Holdings, Inc., ALI Eton Property Development Corporation, Ceci Realty Inc., Fort Bonifacio Development Corporation, Bonifacio Land Corporation, Emerging City Holdings, Inc., Columbus Holdings, Inc., Berkshires Holdings, Inc. AKL Properties, Inc., AC Ventures Holdings Corp., and Bonifacio Art Foundation, Inc. He is a Director of LiveIt Investments, Ltd., AG Holdings Ltd., AC Infrastructure Holdings Corporation, Asiacom Philippines, Inc., Ayala Retirement Fund Holdings, Inc., Honda Cars Philippines, Inc., Isuzu Philippines Corporation, Altaraza Development, Corporation and Manila Peninsula.

He is a Director of INSEAD Business School and Georgetown University; Member of the International Advisory Board of Tikehau Capital and of the Hispanic Society Museum & Library International Advisory Council; Vice Chairman of the Philippine-Singapore Business Council, member of the World Presidents' Organization and Chief Executives Organization; Chairman of Habitat for Humanity International's Asia-Pacific Capital Campaign Steering Committee; Member of the Board of Trustees of Caritas Manila, Pilipinas Shell Foundation, and the National Museum; and Member of the Tate Museum Asia-Pacific Acquisitions Committee, Asia Philanthropy Circle and The Metropolitan Museum International Council.

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

3. **CEZAR P. CONSING,** Filipino, 61 years old, has been since 2013 President and Chief Executive Officer of Bank of the Philippine Islands (BPI), and a Senior Managing Director of Ayala Corporation. He has served on BPI's board of directors for 19 years (1995 - 2000, 2004 - 2007, 2010 - present). He serves as chairman of BPI's thrift bank, investment bank, UK bank, and property and casualty insurance subsidiaries, and vice chairman of its foundation; and is also a board director of BPI's life insurance and asset management subsidiaries. Mr. Consing is a member of BPI's executive committee, and is chairman of its management and credit committees. He is also a board director of Ayala Corporation, BPI's controlling shareholder.

   Mr. Consing serves as President and board director of Bancnet, Inc., a banking industry consortium institution where BPI is a minority shareholder. He is chairman and president of the Bankers Association of the Philippines and is chairman of Philippine Dealing System Holdings Corporation and its three operating subsidiaries.

   Outside his association with BPI and the Ayala Group, Mr. Consing serves on the boards of four private companies: The Rohatyn Group, Sqreem Technologies, FILGIFTS.com and Endeavor Philippines. He has also served as an independent board director of four publicly-listed companies: Jollibee Foods Corporation (2010 – present), CIMB Group Holdings (2006 – 2013), First Gen Corporation (2005 – 2013), and National Reinsurance Corporation (2014 – 2019), where he also served as Chairman (2018 – 2019). Mr. Consing has been a member of the Trilateral Commission, the global discussion group, since 2014. He has also served on the board of the Hong Kong based Asian Youth Orchestra. He is a board director of the US-Philippines Society and the Philippine-American Educational Foundation, and a trustee of the College of St. Benilde and the Manila Golf Club Foundation.

   Mr. Consing first worked for BPI from 1981 - 1985. He worked for J.P. Morgan & Co., based in Hong Kong and Singapore, from 1985 – 2004. He rose to co-head or head the firm's investment banking business in Asia Pacific from 1997 - 2004, the last five years as President of J.P. Morgan Securities (Asia Pacific) Ltd. As a senior Managing Director of J.P. Morgan, Mr. Consing was a member of the firm's global investment banking management committee, its Asia Pacific management committee, and its global Managing Director selection committee.

   Mr. Consing was a partner at The Rohatyn Group, an alternative investment firm that focuses on the emerging markets, from 2004 – 2013. He headed its Hong Kong office and its private investing business in Asia, and was a board director of its real estate, and energy and infrastructure private equity investing subsidiaries.

   Mr. Consing received an A.B. Economics degree (Accelerated Program), Magna Cum Laude, from De La Salle University, Manila, in 1979. He obtained an M.A. in Applied Economics from the University of Michigan, Ann Arbor, in 1980.

4. **ROMEO L. BERNARDO,** Filipino, 66 years old, has served as a member of the Board of Directors of BPI since February 1998 and a member of the Audit Committee since October 2020.

   Mr. Bernardo serves as an Independent Director of the following PSE-listed companies: Aboitiz Power Corporation, and RFM Corporation. He is also a Non-Executive Director of Globe Telecom, Inc. He is the Chairman of the Board of Directors of the ALFM. family of mutual funds. He also serves as a Board Director of the Management Association of the Philippines and the Finex Foundation. He is likewise a public advocate of good corporate and national governance and frequently writes on the subject in his capacity as Vice-Chairman and Co-Founder of the Foundation for Economic Freedom and the Philippine Partner of GlobalSource Partners, Inc., a worldwide network providing insights on emerging markets.

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

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

5. **IGNACIO R. BUNYE**, Filipino, 76 years old, was elected as an Independent Director of BPI in April 2016. He is the Chairman of the Bank's Related Party Transaction Committee and the Corporate Governance Committee. Mr. Bunye also serves as an Independent Director of BPI Asset Management and Trust Corporation, BPI Direct BanKo, Inc., A Savings Bank and BPI Capital Corporation.

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

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

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

6. **RAMON R. DEL ROSARIO, JR.,** Filipino, 76, was elected as Director of Bank of the Philippine Islands (BPI) in April 2020 and a member of the Nomination Committee. He currently holds the following positions in the following companies: President and Chief Executive Officer of Phinma Corporation; President and Chief Executive Officer of Philippine Investment Management, Inc.; Chairman of Araullo University, University of Iloilo, University of Pangasinan, Cagayan de Oro College, Southwestern University, St. Jude College, Republican College, Rizal College of Laguna, United Pulp and Paper Co., Inc., PHINMA Microtel Hotels, Inc. and PHINMA Hospitality, Inc. He is Vice-Chairman of Phinma Foundation, Inc. and Phinma Property Holdings Corp., director of Philcement Corp. and other PHINMA managed companies; Chairman of Philippine Business for Education; and Vice-Chairman of Caritas Manila and Philippine Business for Social Progress. He is a former Chairman of the Ramon Magsaysay Award Foundation and Makati Business Club, where he remains a Trustee; and former Chairman of the National Museum of the Philippines.

Mr. del Rosario graduated from De La Salle College in 1967 with degrees in BSC-Accounting and AB Social Sciences (Magna Cum Laude) and from Harvard Business School in 1969 with a Master in Business Administration degree. He has managed Phinma since 2002 and brings with him a wealth of experience in leading a diversified conglomerate.

7. **OCTAVIO V. ESPIRITU,** Filipino, 77 years old, has been a member of the Board of Directors of BPI since April 2000 and an Independent Director since April 2003. He is the Chairman of the Bank's Risk Management Committee and a member of the Audit Committee. He was appointed Lead Independent Director in April 2019.

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

   Mr. Espiritu was the President and Chief Executive Officer of Far East Bank & Trust Company (which merged with the Bank of the Philippine Islands in the year 2000) from 1984 until April 2000. He was also the President of the Bankers Association of the Philippines for three consecutive terms from March 25, 1991 to March 28, 1994. He served as the Chairman of the Board of Trustees of Ateneo de Manila University for 14 years.

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

8. **REBECCA G. FERNANDO**, Filipino, 72 years old, served as Director of BPI from 1995 to 2007. She was again re-elected Director of BPI in 2009 up to the present. Ms. Fernando is a member of the following Committees in BPI: Executive Committee, Related Party Transaction Committee and Retirement/Pension Committee. She is also a member of the Board of Directors of BPI Capital Corporation, BPI Family Savings Bank, Inc. and BPI Asset Management and Trust Corporation.

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

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

9. **JOSE TEODORO K. LIMCAOCO,** Filipino, 59 years old, was elected as Director of BPI in February 2019 and is a member of Executive Committee. Previously, he served as President of BPI Family Savings Bank from 2010-2015 and President of BPI Capital Corporation from 2007-2010. He was also Officer-in-Charge for Ayala Life Assurance, Inc. in 2009 and Director/Chairman of Ayala Plans, Inc. in 2010-2011.

   He is currently a Senior Managing Director and the Chief Finance Officer, Chief Risk Officer, Chief Sustainability Officer and Finance Group Head of Ayala Corporation, a Director of Globe Telecom, Inc., and Integrated Micro-Electronics, Inc. and an Independent Director of SSI Group, Inc., all PSE-listed companies. He is the Chairman of AC Energy International, Inc. (formerly Presage Corporation), Darong Agricultural and Development Corporation and Zapfam Inc. He is the President and CEO of AC Ventures Holding Corp., AYC Finance Limited, AC International Finance Limited. He is the Vice Chairman of Lagdigan Land Corporation. He is the President of Liontide Holdings, Inc. and of Philwater Holdings Company, Inc. He is a Director of Ayala Hotels, Inc., AC Energy and Infrastructure Corporation (formerly AC Energy, Inc.), Ayala Healthcare Holdings, Inc., AC Infrastructure Holdings Corporation, Ayala Aviation Corporation, Asiacom Philippines, Inc., Ayala Group Legal, Michigan Holdings, Inc., AC Industrial Technology Holdings, Inc., A.C.S.T Business Holdings, Inc., Bestfull Holdings Limited, Purefoods International Limited, AYC Holdings Limited, AG Holdings Limited, Fine State Group Limited, AG Region Pte. Ltd., Ayala International Holdings Limited, Ayala International Pte. Ltd., Strong Group Limited, Total Jade Group Limited, VIP

Infrastructure Holdings Pte. Ltd., AI North America, Inc., LICA Management Inc., and Just For Kids, Inc. He is the Treasurer of Ayala Retirement Fund Holdings, Inc.

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

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

10. **AURELIO R. MONTINOLA III**, Filipino, 69 years old, has been a member of the Board of Directors of BPI since 2004. Mr. Montinola served as President and Chief Executive Officer of BPI for eight years from 2005 to 2013, and BPI Family Savings Bank, Inc. for twelve years from 1992 to 2004. He is a member of the Bank's Executive, Risk Management and Personnel & Compensation Committees. Among the several BPI subsidiaries and affiliates, Mr. Montinola serves as member of the Board of Directors of the following: BPI Capital Corporation, BPI Family Savings Bank, Inc., BPI/MS Insurance Corporation, and BPI Direct BanKo, Inc., A Savings Bank.

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

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

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

11. **MERCEDITA S. NOLLEDO,** Filipino, 80 years old, has been a member of the Board of Directors of BPI since November 1991. She is the Chairman of the Bank's Retirement & Pension Committee and a member of the Corporate Governance Committee. Ms. Nolledo is also a Director of BPI Investment Management, Inc., where she sits as Chairman; a member of the Board of BPI Family Savings Bank, Inc, and a member of its Corporate Governance Committee.

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

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

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

12. **ANTONIO JOSE U. PERIQUET**, Filipino, 60 years old, has been an **Independent Director** of BPI since April 2012. He is a member of the Bank's Executive, Personnel & Compensation, and Retirement & Pension Committees, and is Chairman of its Nomination Committee. He is also the Chairman of BPI Asset Management and Trust Corporation and also serves as an Independent Director of BPI Capital Corporation and BPI Family Savings Bank, Inc.

Mr. Periquet is an Independent Director of the following PSE-listed companies: ABS-CBN Corporation, Ayala Corporation, DMCI Holdings, Inc., Max's Group of Companies, The Philippine Seven Corporation and Semirara Mining and Power Corporation. He is also an Independent Director of Albizia ASEAN Tenggara Fund, Chairman of the Campden Hill Group, Inc. and Pacific Main Holdings. He is a trustee of Lyceum University of the Philippines and a member of the Dean's Global Advisory Council at the University of Virginia's Darden School of Business.

Mr. Periquet holds an AB Economics degree from the Ateneo de Manila University, a Master of Science degree in Economics from Oxford University and an MBA from the University of Virginia.

13. **CESAR V. PURISIMA**, Filipino, 61 years old, was elected as Independent Director of BPI in January 2021. Mr. Purisima also currently serves as an Independent Director of Ayala Land, Inc., Universal Robina Corporation and Jollibee Foods Corporation. He is also a founding partner of Ikhlas Capital Singapore Pte. Ltd., a pan-ASEAN private equity platform. He is a member of the Board of AIA Group Limited, a member of the Global Advisory Council of Sumitomo Mitsui Banking Corporation, and a member of Singapore Management University's International Advisory Council in the Philippines. He is also a member of the board of trustees of the World Wildlife Fund- Philippines, De La Salle University, and the International School of Manila. He is an Asia Fellow at the Milken Institute, a global, non-profit, on-partisan think tank.

Mr. Purisima served in the government of the Philippines as Secretary of Finance and Chair of Economic Development Cluster of the President's Cabinet from July 2010 to June 2016 and as Secretary of Trade and Industry from January 2004 to February 2005. He also previously served on the boards of a number of government institutions, including as a member of the Monetary Board of the Bangko Sentral ng Pilipinas (BSP), Governor of the Asian Development Bank and World Bank for the Philippines, Alternate Governor of the International Monetary Fund for the Philippines, and Chairman of the Land Bank of the Philippines. Under his leadership, the Philippines received its first investment-grade ratings. He was named Finance Minister of the Year seven times in six consecutive years by a number of publications, a first for the Philippines. Prior to serving the government, Mr. Purisima was the Chairman & Country Managing Partner of the Philippines' largest professional services firm SGC & Co.

He was conferred the Chevalier dans l'Ordre national de la Legion d'Honneur (Knight of the National Order of the Legion of Honour) by the President of the French Republic in 2017, the Order of Lakandula, Rank of Grand Cross (Bayani) by the President of the Philippines in 2016, and the Chevalier de l'Ordre national du Merite (Knight of the National Order of Merit) by the President of the French Republic in 2001.

Mr. Purisima is a certified public accountant and has extensive experience in public accounting both in the Philippines and abroad. Mr. Purisima obtained his Bachelor of Science in Commerce (Majors in Accounting & Management of Financial Institutions) degree from De La Salle University (Manila) in 1979, Master of Management degree from J.L. Kellogg Graduate School of Management, Northwestern University in 1983 and Doctor of Humanities honoris causa degree from Angeles University Foundation (Philippines) in 2012.

14. **ELI M. REMOLONA, JR.**, Filipino, 68 years old, has been an Independent Director of BPI since April 2019 and a member of the Risk Management Committee. Mr. Remolona also serves as an Independent Director of BPI/MS Insurance Corporation since December 2020. He has extensive policy experience in financial markets, international finance, monetary policy, and bank regulation, having worked for 14 years at the Federal Reserve Bank of New York and 19 years at the Bank for International Settlements (BIS). He is currently Professor of Finance and Director of Central Banking at the Asia School of Business in Kuala Lumpur. The school is a collaborative effort with the MIT Sloan School of Management.

Until October 2018, Mr. Remolona was the Chief Representative for Asia and the Pacific of the BIS. He also served as Secretary of the Asian Consultative Council, which consists of the Governors of the 12 leading central banks in the region. Until 2008, he was Head of Economics for Asia and the Pacific of the BIS. Mr. Remolona joined the BIS in 1999 and for 6 years served as Head of Financial Markets and Editor of the BIS Quarterly Review. Before that, he was Research Officer of the Federal Reserve Bank of New York.

Mr. Remolona has taught at Columbia University, New York University, Williams College and the School of Economics of the University of the Philippines. He obtained his Bachelor's Degree in Economics Honors from Ateneo de Manila University and has a Ph.D. in Economics from Stanford University.

15. **MARIA DOLORES B. YUVIENCO,** Filipino, 73 years old, was elected as Director of BPI in April 2014 and as **Independent Director** in April 2016. Mrs. Yuvienco served as member of the Audit Committee until October 2020 when she was designated as Chairman to replace Director Xavier P. Loinaz who resigned from the Board. She has been a member of the Related Party Transactions Committee since April 2019 and the Personnel and Compensation since April 2020. She is also a member of the Corporate Governance of the Bank. In July 2019, Mrs. Yuvienco was elected as Independent Director of BPI Asset Management and Trust Corporation, Chairman of the AMTC Corporate Governance Committee and member of the AMTC Risk Oversight Committee.

She has served as Independent Director of First Consolidated Bank (Thrift Bank), and chosen to chair the Nomination and Governance Committee.

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

Ms. Yuvienco attended the Advanced Corporate Governance/Sustainability Summit on November 2020 to comply with the continuing educational/training required by the Securities Exchange Commission (SEC) and the Anti-Money Laundering/Counter Terrorist Financing on September 2020 to comply with the requirement of Bangko Sentral ng Pilipinas (BSP).

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

THE KEY EXECUTIVE OFFICERS OF BPI AS OF FEBRUARY 28, 2021

1. **CEZAR P. CONSING**
President & Chief Executive Officer

2. **MARIA THERESA MARCIAL JAVIER**
Executive Vice President/CFO

Ms. Marcial, Filipino, 50 years old, is the Chief Finance Officer, Chief Sustainability Officer and Head of Strategy and Finance of BPI. She is responsible for strategic planning and sustainability, central accounting, financial control, balance sheet management and analytics, corporate legal affairs, strategic management and sales of bank assets, and investor relations.

She is a member of BPI's Management Committee, Asset and Liability Committee, Credit Committee, and chairs the Finance Committee. She is a board director of BPI MS Insurance Corporation, BPI Europe Plc, BPI Asset Management and Trust Corporation, AF Payments Inc, and BPI Global Payments Asia Pacific Philippines Inc. She is a fellow of Foundation for Economic Freedom, trustee and treasurer of World Wide Fund for Nature (WWF) Philippines, treasurer of BPI Foundation, and board director of Philippines Inter-Island Sailing Federation.

She joined BPI in 1995 through the Bank Officers Development Program. She has 26 years of banking experience with expertise in strategic planning and finance, corporate banking, debt and equity capital markets, portfolio management, trust, and retail wealth management. She previously served on the BPI Trust Committee and the board of BPI Investment Management Inc. Prior to her banking career, she worked for the National Economic and Development Authority, and the Agricultural Policy Credit Council.

She previously served as president of the Fund Managers Association of the Philippines, president of the Trust Officers Association of the Philippines, vice-chairman of Capital Markets Development Committee of FINEX, alternate governor of the Market Governance Board of Philippine Dealing and Exchange Corporation, and member of the National Advisory Council of WWF Philippines. She was recognized as one of Top 25 Most Influential Women in Asset Management in Asia by Asian Investor and Most Outstanding Alumnus of the University of the Philippines Los Baños.

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

3. **RAMON L. JOCSON**
Executive Vice President/COO

Filipino, 61 years old, Mr. Jocson is currently an EVP and the COO of BPI. He heads BPI's Enterprise Services which serves as the backbone of the organization that includes Human Resources, Centralized Operations, Information Systems, Digital Channels, Business Transformation & Data Science, Facilities Services, Corporate Affairs and Communications and Client Experience Center. He chairs the Bank's IT Steering Committee and is a member of the Bank's Management Committee.

Mr. Jocson began his career as a Systems Analyst with IBM Manila in 1982, subsequently took on more responsibility as he assumed different positions, including Information Systems Manager, Systems Engineering Manager and Manager of Quality. In 1995, he was assigned in Singapore where he led IBM's Applications/Systems Integration business in ASEAN and South Asia. In 1996, he was appointed as Managing Director for IBM Philippines. In 2000, he took on a new assignment as Vice President and GM of IBM Global Services, ASEAN and South Asia. He was then appointed as Vice President and GM of IBM Global Services for Industrial Sector for Asia Pacific in 2005. Two years later, in 2007, he took on the role of Vice President and GM of Application Services for the Growth Market Unit, where he led IBM's Applications Management and Application Integration Services in Asia Pacific, Central and Eastern Europe, Latin America and Middle East/Africa. He was then appointed as VP & GM of Integrated

Technology Services for Asia Pacific in 2010. In 2013, he was appointed as VP & GM of IBM Global Services for Central and Eastern Europe based in Prague, Czech Republic. In this capacity, he was responsible for IBM's services portfolio in Russia/CIS, Turkey, Poland & Baltics, Central Europe and South East Europe. From January 2015 until he joined BPI in September 2015, he was in Singapore as IBM Asia Pacific VP & GM for Strategic Outsourcing which catered to major regional banks, telcos and airlines as major clients.

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

Mr. Jocson graduated with a B.S. Industrial Engineering degree from the University of the Philippines in 1982 and obtained his MBA from the Ateneo Graduate School of Business.

4. **MARIE JOSEPHINE M. OCAMPO**
Executive Vice President

Filipino, 59 years old, Ms. Ocampo is the Head of the Mass Retail Segment of the Bank, where she oversees BPI's credit, debit and prepaid card businesses as well as personal and micro finance loans.

Ms. Ocampo is currently the Chairman of the Board of BPI Direct BanKo, the bank's micro-finance subsidiary. She is a member of the Board of BPI Payments Holdings Inc., Global Payments Asia-Pacific Philippines, Inc., AF Payments Inc., Zalora Philippines and CARD MRI Rizal Bank Inc.

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

Prior to joining BPI, Ms. Ocampo gained over 10 years of marketing experience in Procter & Gamble and Johnson & Johnson Australia and the Philippines, where she led the expansion of J&J's Health Care, Baby Care and Sanitary Protection business.

Ms. Ocampo graduated Magna Cum Laude and received her Bachelor of Science in Business Management, Honors Program at Ateneo de Manila University. She also completed the Advanced Management Program at the Harvard Business School in 2007.

5. JUAN CARLOS L. SYQUIA
Executive Vice President

Filipino, 54 years old; Head of Corporate Banking. Mr. Syquia's responsibilities include managing the Corporate Banking Relationship Management, Corporate Credit Products, Transaction Services (Cash Management and Trade), Remittance and Fund Transfer, Investment Banking and Equity Brokerage. He is also a director of BPI's joint venture company, Global Payments Asia-Pacific Philippines Incorporated. Prior to taking on this role in 2018, he was the President of BPI Capital Corporation and Co-Head for Investment Banking for the Bank. He has over 30 years of work experience in the financial services industry.

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

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

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

ANNEX "A-1"

MANAGEMENT REPORT

Description of business

The 169-year-old Bank of the Philippine Islands ("BPI") is the first bank in the Philippines and Southeast Asia, and licensed by the Bangko Sentral ng Pilipinas ("BSP") to provide universal banking services. The Bank is among the highest in the industry in terms of total assets, equity capital, and market capitalization, and has a significant share of total banking system deposits, loans, and investment assets under management. It is recognized as one of the country's top providers of the following services: asset management, cross-border remittances, life and non-life bancassurance, as well as asset finance and leasing. BPI also has a significant capital markets presence, particularly in fixed income and equities underwriting, distribution and brokerage. It is a significant provider of foreign exchange to both retail and corporate clients. The Bank also has the country's second largest branch network and operates the second largest ATM network. It is a leader and innovator in the use of digital channels, and is a major provider of financial services through online and mobile banking.

Principal Subsidiaries. The bank's principal subsidiaries are:

(1) BPI Family Savings Bank, Inc. ("BFSB") is BPI's flagship platform for retail lending, in particular, housing and auto loans. It is also one of BPI's primary vehicles for retail deposits. BFSB was acquired by BPI in 1984. In January 2021, the Bank announced BPI's merger with BFSB, with BPI as the surviving entity, subject to regulatory and stakeholder approvals;

(2) BPI Capital Corp. ("BPI Cap") is an investment house focused on corporate finance and the underwriting, distribution, and trading of debt and equity securities. It began operations in December 1994. BPI Cap wholly owns BPI Securities Corp., a stock brokerage;

(3) BPI Direct BanKo, Inc., A Savings Bank ("BanKo"), serves microfinance customers through branch, digital, and partnership channels. Founded in February 2000 as BPI Globe BanKO, it is now wholly-owned, following a September 2016 purchase of stakes owned by Ayala Corp. (20%) and Globe Telecom, Inc. (40%) and a December 2016 merger with BPI Direct Savings Bank, Inc.;

(4) BPI International Finance Limited ("BPI IFL") is a deposit taking company in Hong Kong. Originally established in August 1974, it provides deposit services as well as client-directed sourcing services for international investments;

(5) BPI Remittance Centre Hong Kong Ltd. ("BERC HK") is a licensed money service operator in Hong Kong servicing the remittance services to beneficiaries residing throughout the Philippines. On November 21, 2018, BPI IFL distributed its shares in BERC HK as a property dividend to the Parent Bank. BERC HK became an immediate subsidiary of the Parent Bank following this;

(6) BPI Europe Plc. ("BPI Europe") commenced operations in the United Kingdom in May 2007 as a bank registered in England and Wales. It is a UK-licensed bank authorized by the Prudential Regulation Authority (PRA), and regulated by the PRA and the Financial Conduct Authority (FCA). It started its operations offering retail deposit products and money services, servicing retail customers, primarily targeting the Filipino community;

(7) BPI Century Tokyo Lease & Finance Corp. ("BPI CTL") is a non-bank financial institution ("NBFI") that provides financing services pursuant to the Financing Company Act. BPI CTL is a joint venture with Tokyo Century Corporation ("TCC"), who purchased a 49% stake in 2014. BPI CTL wholly owns BPI Century Tokyo Rental Corp., which offers operating leases. In November 2020, the Bank announced that TCC has decided to acquire an additional 2% of the issued shares of BPI CTL, which will increase their equity stake to 51%;

(8) BPI/MS Insurance Corp. ("BPI MS") is a non-life insurance company. It is a joint venture with Mitsui Sumitomo Insurance Co. (who owns a 49% stake), and is the result of a merger of FGU Insurance Co. and FEB Mitsui Marine Insurance Co., which was acquired as a subsidiary of Far East Bank in 2000;

(9) BPI Asset Management and Trust Corporation ("BPI AMTC") is a Stand Alone Trust

Corporation (SATC) serving both individual and institutional investors with a full suite of local and global investment solutions. BPI AMTC was established after a Certificate of Authority to Operate was issued by the BSP on December 29, 2016 and it started operations on February 1, 2017;

(10) BPI Investment Management Inc. ("BIMI") is a wholly owned subsidiary of the Bank and serves as the Bank's manager and investment advisor to the ALFM mutual funds, which comprise a number of open-end investment companies registered with, and regulated by, the Securities and Exchange Commission (SEC). BIMI is also responsible for formulating and executing the funds' investment strategies. Effective January 29, 2020, BIMI assumed the management and distribution of nine mutual funds previously managed by PhilAm Asset Management, Inc. ("PAMI"). BIMI and PAMI first announced the agreement to transfer the management of the funds on November 20, 2019.

Legal Proceedings

The Bank does not have any material pending legal proceedings to which the registrant or any of its subsidiaries or affiliates is a party or of which any of their property is the subject.

Market Information

The common shares of BPI have been listed on the Philippine Stock Exchange (PSE) since 1971.

The table below shows the high and low prices of BPI shares transacted at the PSE for each quarter within the last three (3) fiscal years.

	High	Low
Year Ended December 31, 2018		
1st Quarter..............	P 120.98	106.10
2nd Quarter.............	111.84	86.00
3rd Quarter..............	101.00	79.50
4th Quarter..............	94.95	79.50
Year Ended December 31, 2019		
1st Quarter..............	P 95.00	83.90
2nd Quarter.............	85.65	77.30
3rd Quarter..............	94.35	78.00
4th Quarter..............	100.00	83.10
Year Ended December 31, 2020		
1st Quarter..............	P 89.00	51.40
2nd Quarter.............	78.00	57.00
3rd Quarter..............	75.00	61.00
4th Quarter..............	88.60	64.50

The high and low prices of BPI at the Philippine Stock Exchange on February 26, 2021 were P89.00 and P83.50, respectively, with a closing price of P89.00.

Dividends

The Bank's practice is to declare cash dividends to its common stockholders on a regular basis as may be determined by the Board of Directors. As its dividend payout history shows, the Bank has consistently paid at least P1.80 per share in annual dividends; however, the Bank evaluates its dividend payments from time to time in accordance with business and regulatory requirements, and cannot make explicit warranties about the quantum of future dividend payments.

Cash dividends declared and paid during the years ending December 31, 2018, 2019, and 2020 are as follows:

Date Declared	Date of Payment	Amount of Dividends	
		Per Share	Total (in Million Pesos)
June 20, 2018	July 25, 2018	0.90	4,052

Date Declared	Date of Payment	Amount of Dividends	
		Per Share	Total (in Million Pesos)
December 19, 2018	January 29, 2019	0.90	4,052
May 15, 2019	June 19, 2019	0.90	4,056
November 20,2019	December 27, 2019	0.90	4,057
May 20, 2020	June 26, 2020	0.90	4,062
October 21, 2020	November 26, 2020	0.90	4,062

There are no known restrictions or impediments to the Bank's ability to pay dividends on common equity, whether current or future.

Dividend declaration is ultimately the responsibility of BPI and the BPI Board of Directors which has the authority to declare dividends as it may deem appropriate. Banks that meet the prequalification criteria including capital adequacy requirements and applicable laws and regulations of the BSP can declare and pay dividends without prior BSP verification.

Details of the dividend declaration is reflected in Note 18 of the 2020 Audited Financial Statements.

Management Discussion and Analysis of Financial Condition and Results of Operations

The highlights of the balance sheet and income statement of BPI for each year and the compounded growth rate over the three-year period (2018-2020) are shown below:

In Million Pesos	2017	2018	2019	2020	CAGR
Assets	1,903,905	2,085,228	2,205,030	2,233,443	5.5%
Deposits	1,562,200	1,585,746	1,695,343	1,716,177	3.2%
Loans (Net)	1,202,338	1,354,896	1,475,336	1,407,413	5.4%
Capital		248,521	269,577	279,835	15.7%

The compounded annual growth rate (CAGR) of the Bank's asset levels from 2018 to 2020 was 5.5%, driven by the 5.4% increase in loans. Deposits likewise increased over the same period by 3.2%. Capital grew 15.7%, boosted by the May 2018 Stock Rights Offer and increasing annual profits, net of cash dividend payments.

2018

Total resources reached P2.09 trillion, P181.3 billion, or 9.5% higher than last year's P1.90 trillion. **Total deposits** grew P23.5 billion, or 1.5% to P1.59 trillion, on the back of savings and demand deposit growth of P23.0 billion, or 2.7%, and P4.0 billion or 1.6%, respectively. **Other borrowed funds** increased by P83.4 billion, or 99.8% largely due to the 2018 dollar and peso bond issuances. **Deferred credits and other liabilities** increased by P3.1 billion, or 7.9% due to higher accounts payable obligations. **Due to Bangko Sentral ng Pilipinas and other banks** increased by P2.8 billion or 227.5% due to higher obligations to BSP. **Accrued taxes, interest and other expenses** rose by P1.9 billion or 27.3% on higher accrual of year end taxes and interest payable. **Derivative Financial Liabilities** declined by P0.9 billion, or 18.7% due to lower market valuation of certain derivative products.

Capital funds amounted to P248.5 billion, P67.8 billion, or 37.5% higher than last year's P180.7 billion. **Share capital and share premium** contributed to the capital growth by P5.6 billion, or 14.3% and P44.4 billion, or 149.2%, respectively, due to the May 2018 Stock Rights Offer. **Surplus** also increased P11.0 billion, or 9.5% due to higher accumulated profits net of cash dividends for the period. **Reserves** likewise increased by P3.8 billion, or 1,150.0% representing appropriation of general loan loss provisions in excess of PFRS9 loan loss provisions under BSP Circ. 1011. **Accumulated other comprehensive loss** also decreased by P2.9 billion, or 57.2% due to transition to PFRS 9.

On the asset side, **loans and advances** increased P152.6 billion, or 12.7% driven by higher loan demand from corporate and credit card loans. **Interbank loans receivable and securities purchased under agreements to resell** amounted to P34.3 billion, an increase of P15.7 billion, or 84.7% on account of higher volume of RRP placements and interbank term loans. **Financial assets at fair value through OCI** likewise increased P13.9 billion, or 59.6% on higher deployment activities post-EMTN, peso bond issuance and liquidity assets build up towards year-end. **Cash and other**

cash items grew P8.4 billion, or 23.9% on account of higher cash requirement for the period as compared to year-end 2017. **Trading securities** increased by P7.4 billion, or 138.0%, due to market view of declining rates. **Other resources, net** amounted to P22.1 billion, P6.3 billion, or 40.2% on account of higher miscellaneous assets. **Bank premises, furniture, fixtures and equipment, net** increased by P1.2 billion, or 7.9% due to land and building premises, renovations and leasehold improvements**.** **Deferred income tax assets, net** grew P444 million, or 5.5% on account of the impairment losses setup for the period.

On the other hand, **Assets held for sale** decreased by P215 million, or 6.0%, due to higher sell down of foreclosed properties. **Investments in subsidiaries and associates, net** declined P727 million, or 11.4% on account of the decrease in the Bank's share in the net income from BPI-Philam. **Derivative financial assets** decreased by P0.9 billion, or 19.0%, due to lower fair value on certain derivative positions. **Due from other banks**, declined by P1.9 billion, or 13.4%, on lower working balances and placements maintained with foreign correspondent banks. **Due from Bangko Sentral ng Pilipinas (BSP)** likewise decreased by P30.0 billion, or 11.7% due to cut in reserve requirements.

2019

Total resources reached P2.20 trillion, P119.8 billion, or 5.7%, higher than last year's P2.09 trillion. **Total deposits** grew P109.6 billion, or 6.9% to P1.70 trillion, on the back of growth in time, demand, and savings deposits of 17.6%, 6.1%, and 1.8%, respectively. **Deferred credits and other liabilities** increased by P4.6 billion, or 10.8%, from the recognition of lease liabilities on office spaces as part of the Bank's adoption of PFRS 16: Leases. **Manager's checks and demand draft outstanding** increased by P1.4 billion, or 19.7%, on account of higher volume of manager's checks issued. **Accrued taxes, interest and other expenses** rose by P809 million, or 8.9%, on higher accrued interest payable and accrued expenses. On the other hand, **bills payable and other borrowed funds** decreased by P16.1 billion, or 9.6%, largely due to lower bills payable. **Due to Bangko Sentral ng Pilipinas and other banks** decreased by P1.0 billion, or 26.1%, on account of lower tax collected for the Bureau of Internal Revenues (BIR). **Derivative Financial Liabilities** declined by P1.0 billion, or 26.1%, due to lower market valuation of certain derivative products.

Capital funds amounted to P269.6 billion, P21.0 billion, or 8.5%, higher than last year's P248.5 billion. **Surplus** contributed to the capital growth by P20.0 billion, or 15.7%, as a result of accumulated profits net of cash dividend payments. **Reserves** likewise increased by P1.0 billion, or 24.7%, representing required appropriation of general loan loss provisions in excess of PFRS9 loan loss provisions under BSP Circ. 1011. **Accumulated other comprehensive loss** increased by P263 million, or 12.1%, due to the increase in actuarial losses on defined benefit plan.

On the asset side, **loans and advances, net** increased P120.4 billion, or 8.9%, led by the growth in the corporate and consumer segments. **Financial assets at fair value through OCI** likewise increased P16.7 billion, or 44.9%, due to the net effect of the increase in the Bank's various holdings in hold to collect and sell debt securities. **Due from Other Banks,** increased by P9.9 billion, or 79.2%, due to net increase in the account balances with various banks. **Bank premises, furniture, fixtures and equipment, net** increased by P7.5 billion, or 46.1%, as the Bank adopted PRFS 16 which entails the recognition of Right-of-Use Asset for the Bank's leased properties and equipment. **Financial assets at fair value through profit and loss** increased by P7.4 billion, or 44.2%, due to increase in holdings of securities intended for trading on outlook of lower interest rates. **Cash and other cash items** grew P3.7 billion, or 8.5%, on account of higher cash requirement for the period as compared to year-end 2018. **Assets attributable to insurance operations** increased by P1.2 billion, or 7.3%, due to higher securities investments of the Bank's non-life insurance affiliate. **Deferred income tax assets, net** grew P1.2 billion, or 13.7%, on account of the impairment losses setup for the period. **Investments in subsidiaries and associates, net** increased P1.1 billion, or 19.2%, as a result of higher income from the asset management subsidiaries.

On the other hand, **Due from Bangko Sentral ng Pilipinas (BSP)** decreased by P18.1 billion, or 8.0% due to lower volume of placement in BSP deposits and lower reserve requirements. **Financial assets at amortized cost** decreased by P12.5 billion, or 4.3%, due to the net effect of the decrease in the Bank's various holdings in hold to collect and sell debt securities. **Interbank loans receivable and securities purchased under agreements to resell** declined P11.7 billion, or 34.2%, due to lower volume of placement in Reverse Repurchase Agreements (RRP) and interbank term loans. **Other assets, net** was lower by P6.8 billion, or 30.6%, primarily attributable to lower miscellaneous assets. **Assets held for sale, net** also declined P208 million, or 6.2%, due to sale of foreclosed properties.

2020

Total resources reached P2.23 trillion, up P28.41 billion, or 1.3%, from last year's P2.21 trillion. **Total deposits** grew P20.83 billion, or 1.2% to P1.72 trillion, on the back of growth in demand and savings deposits of 15.7% and 16.9%, respectively. **Derivative Financial Liabilities** increased P2.78 billion, or 96.6%, due to lower market valuation of certain derivative products. On the other hand, **Due to Bangko Sentral ng Pilipinas and other banks** decreased by P1.46 billion, or 49.4%, on account of lower tax collected for the Bureau of Internal Revenues (BIR). **Manager's checks and demand draft outstanding** decreased by P1.19 billion, or 14.4%, on account of lower volume of manager's checks issued. **Accrued taxes, interest and other expenses** lower by P963 million, or 9.8%, on lower accrued interest payable.

Capital funds amounted to P279.84 billion, increased P10.26 billion, or 3.8%, higher than last year's P269.58 billion. **Surplus** contributed to the capital growth by P18.05 billion, or 12.2%, as a result of accumulated profits net of cash dividend payments. **Reserves** decreased by P4.69 billion, or 91.9%, representing required appropriation of general loan loss provisions in excess of PFRS9 loan loss provisions under BSP Circ. 1011. **Accumulated other comprehensive loss** likewise increased by P3.46 billion, or 141.9%, due to recognition of lower actuarial losses on defined benefit plan.

On the asset side, **loans and advances, net** declined P67.92 billion, or 4.6%, due to lower growth mostly across business segments compared to 2019. However, **financial assets at fair value through OCI** increased P76.28 billion, or 141.5%, largely due to the sale of hold to collect debt securities. **Due from Other Banks,** increased P17.80 billion, or 79.6% while **due from Bangko Sentral ng Pilipinas (BSP)** increased P16.14 billion, or 7.8% due to higher volume of placements with various banks in BSP deposits. **Financial assets at fair value through profit and loss** increased P13.10 billion, or 54.4%, due to increase in holdings of securities intended for trading. **Deferred income tax assets, net** grew P7.82 billion, or 80.6%, on account of the impairment losses setup for the period. **Interbank loans receivable and securities purchased under agreements to resell** increased P7.68 billion, or 34.0%, due to higher volume placements of interbank term loans. **Other resources, net** was higher by P1.44 billion, or 9.3%, primarily attributable to higher miscellaneous assets. **Assets attributable to insurance operations** increased P935 million, or 5.3%, due to higher securities investments of the Bank's non-life insurance affiliate. **Investments in subsidiaries and associates, net** increased P764 million, or 11.3%, as a result of higher income from the leasing business.

On the other hand, **financial assets at amortized cost** decreased P30.45 billion, or 11.1%, due to the net effect of the decrease in the Bank's various holdings in hold to collect securities. **Cash and other cash items** was lower by P10.08 billion, or 21.3%, on account of lower cash requirement for the period as compared to year-end 2019. **Bank premises, furniture, fixtures and equipment, net** decreased P4.92 billion, or 20.7%, as the booking of the Right-of-Use Asset for the Bank's leased properties and equipment (PFRS 16) decreased from its first recognition in 2019. **Assets held for sale, net** also declined P185 million, or 5.9%, due to sale of foreclosed properties and decline in building improvements.

Asset Quality
The Bank's loan portfolio mix is broken down into large corporates at 76.7%, small and medium enterprises (SMEs) at 4.6%, and consumer at 18.7%, compared to last year's 76.6%, 4.9%, and 18.5%, respectively.

Allowance for Impairment of P28.0 billion was up by P22.44 billion from last year's P5.56 billion. NPL ratio stood at 2.68%, compared to 1.66% in 2019. The Bank's NPL ratio was below the preliminary industry ratio of 3.70% as of December 2020.

Details of the loan portfolio and asset quality are reflected in the 2020 Audited Financial Statements Note 10 and Note 26.1.3.1, respectively.

Funding and Liquidity
Customer deposits account for 88% of BPI's total funding, while 8% is attributable to other borrowings. The Bank's liquidity ratios (Liquidity Coverage Ratio and Net Stable Funding Ratio) are also at record-highs, comfortably above the regulatory minimum of 100%.

Despite the lockdowns in 2020, there was strong demand from the debt capital market which lead to the successful completion of the Bank's three bond issuances, all denominated in peso, including the country’s first social bonds, as follows:

- 2 years P15.3 billion Bonds 4.2423% issued on January 13, 2020;
- 1.5 years P33.89 billion Bonds 4.05% issued on March 27, 2020; and
- 1.75 years P21.5 billion Bonds 3.05% issued on August 7, 2020, also known as COVID Action Response (“CARE”) Bonds, issued under the Bank’s Sustainable Funding Framework and its proceeds earmarked to finance micro and small and medium enterprises.

The Bank’s CASA Ratio was 79.6%, while the Loan-to-Deposit Ratio was 82.0%.

For further details on the Bank’s deposits, borrowings, and liquidity, refer to the 2020 Audited Financial Statements Notes 15, 16, and 26.3.1, respectively.

Results of Operations

In Million Pesos	**2017**	**2018**	**2019**	**CAGR**
Net Interest Income	48,039	55,843	65,945	15.9%
Non-Interest Income	22,981	22,681	28,389	5.5%
Impairment Losses	3,795	4,923	5,822	6.6%
Operating Expenses	38,533	43,602	50,077	12.7%
Net Income	22,416	23,078	28,803	9.3%

2018 vs. 2017. For the year 2018, the Bank earned a **net income** of P23.1 billion, representing a P661.3 million, or 3.0% increase relative to P22.4 billion earned in 2017. This increase was driven by the P7.5 billion growth in revenues, which was partly tempered by the increase in operating expenses and impairment losses by P5.1 billion, or 13.2%, and P1.1 billion, or 29.7%, respectively.

Net interest income of P55.8 billion increased 16.2% from last year’s P48.0 billion on the back of P158.0 billion average asset base expansion.

- **Interest income** increased P14.3 billion, or 21.8%, to P80.2 billion from previous year’s P65.8 billion. Interest income **on loans and advances** increased by P14.8 billion, or 27.1%, as both the loan average volume and yield rose by P173.9 billion, and 48 bps, respectively. Interest income **on financial assets** grew P430 million also due to the increase in average volume and yield of P11.6 billion and 34 bps, respectively. On the other hand, interest income on **deposits with BSP and other banks** declined by P876 million, or 42.8%, due to decline in both average volume and yield by P41.5 million, and 37 bps, respectively.

- **Interest expense** of P24.3 billion increased P6.5 billion, or 36.7%, from last year’s P17.8 billion. Interest expense on **deposits** increased P4.9 billion or 29.3% as both the average deposit base and cost grew by P67.5 billion and 18 bps, respectively. Interest expense on **bills payable and other borrowings** also increased P1.7 billion, or 144.4%, due to higher volume and cost attributable to the new bond issuances in 2018.

Other income at P22.7 billion, was lower by P300 million, or 1.3%, from P23.0 billion last year. The drop in other income was accounted for by the P264 million, or 22.1%, decline in **trading gain on securities** due to market volatility. **Income attributable to insurance operations** also decreased by the P190 million, or 13.5%, due to the life insurance subsidiary’s lower investment income arising from mark-to-market losses and the non-life business’ higher claims expenses. On the positive, **fees and commissions** increased by P572 million, or 6.9%, on increased service charges.

Other expenses at P43.6 billion, increased P5.1 billion, or 13.2% from last year’s P38.5 billion. **Other operating expenses** increased P1.8 billion, or 13.9%, on product-related insurance premiums, rewards and other selling expenses, third party fees and commissions, and transaction related costs. **Occupancy and equipment-related expenses** grew by P1.8 billion, or 15.9% owing to increase in rental, depreciation and amortization costs, and significant spending on IT-related services. **Compensation and fringe benefits** also increased to P15.3 billion, up by P1.4 billion, or 10.2% on account of BanKo’s manpower expansion for its new offices.

Impairment losses stood at P4.9 billion, P1.1 billion, or 29.7% higher than the previous year, due to increased loan loss provisioning.

Provision for income tax at P6.7 billion, up P714 million, or a 12.0% increase from P6.0 billion last year. **Current taxes** rose by P986 million, or 15.4%, due to higher core intermediation fees subject to regular corporate income tax. **Deferred taxes** increased P272 million, or 58.8% on account of the impairment losses set up for the year, and accounts with timing difference.

Income attributable to non-controlling interest decreased P68 million, or 21.4%, on account of lower income from the Bank's non-life insurance and leasing subsidiaries.

Comprehensive Income

Total comprehensive income was at P21.9 billion, P529 million, or 2.4% lower than last year's P22.4 billion as **other comprehensive income** declined P1.3 billion, overshadowing the increase in **net income before minority interest** of P593 million.

Net change in fair value reserve on FVOCI securities, net of tax effect decreased P1.5 billion or 210.8% on account of lower market valuation of the Bank's investment securities. **Currency translation differences** likewise decreased by P152 million, or 120.3% due to the general weakening of the Philippine peso. **Fair value reserve on investments of insurance subsidiaries**, also decreased by P596 million, or 303.8%, as a result of lower market valuation of the insurance subsidiaries' investment funds. **Share in other comprehensive loss of associates** decreased P1.0 billion, or 408.2% due to the downward market valuation of the investments of the bancassurance affiliates. These decreases were partly tempered by the P885 million, or 324.6% increase in **actuarial gains (losses) on defined benefit plan, net of tax effect** as impacted by the change in financial assumption; and the P1.1 billion, or 212.7% increase in **share in other comprehensive gain (loss) of associates** due to the remeasurement/fair valuation of BPI-Philam's liabilities, property, and equipment.

Comprehensive income attributable to non-controlling interest decreased P150 million, or 48.0% due to lower market valuation of the insurance's subsidiaries' investments.

<u>2019 vs. 2018.</u> In 2019, the Bank's **net income** reached P28.8 billion, an increase of P5.7 billion, or 24.8%, from the P23.1 billion recognized in the prior year. This increase was boosted by revenue growth of P15.8 billion, or 20.1%, which was partially tempered by the increase in operating expenses of P6.5 billion, or 14.8%.

Net interest income stood at P65.9 billion, up P10.1 billion, or 18.1%, on account of the P165.7 billion, or 8.6%, expansion in average asset base, and 24-basis point expansion in margins.

- **Interest income** increased P21.4 billion or 26.7%, from previous year's P80.2 billion. Interest income **on loans and advances** increased by P17.7 billion, or 25.6%, on the back of higher average volume and asset yield by P122.8 billion, and 84 bps, respectively. Interest income **on financial assets** likewise increased by P3.1 billion also due to higher average volume and yield of P59.2 billion and 35 bps, respectively. Interest income **on deposits with BSP and other banks** increased by P550 million, or 46.8%, due to higher average yield, partially tempered by the decrease in average volume;

- **Interest expense** of P35.6 billion, increased P11.3 billion, or 46.4%, driven by the increases in both interest expense **on deposits** at P28.9 billion, up P7.6 billion, or 35.8%, and **on bills payable and other borrowings** at P6.8 billion, up P3.7 billion, or 118.7%, due to higher average volume and interest cost.

Other income at P28.4 billion, up P5.7 billion, or 25.2%, higher than the P22.7 billion earned in the same period of 2018 primarily from the **securities trading gain** of P4.0 billion, up P3.3 billion, or 457.7%, due to profit taking on favorable trading opportunities. **Other operating income** at P12.0 billion, increased P1.6 billion, or 15.4%, due to higher credit card income and miscellaneous income. **Fees and commissions** at P9.1 billion, increased P838 million, or 10.2%, mainly from the higher service charges.

Other expenses at P50.1 billion, increased P6.5 billion, or 14.8%, due to increased spending on the following:

- **Occupancy and equipment-related expenses** at P16.1 billion, grew P3.0 billion, or 22.6%, due to the impact of the PRFS 16 implementation and higher technology-related outsourced services costs;
- **Compensation and fringe benefits** at P17.5 billion, was up P2.2 billion, or 14.2%, on increased manpower complement for both microfinance and regular branches;

- **Other operating expenses** at P16.5 billion, also increased P1.3 billion, or 8.8%, primarily from higher costs for regulatory, marketing, transaction servicing, and outsourced services.

Impairment losses stood at P5.8 billion, which includes specific reserves for the Hanjin exposure.

Provision for income tax at P9.4 billion, up P2.7 billion, or a 40.2% increase from P6.7 billion last year. **Current taxes** at P10.0 billion, was higher by P2.6 billion, or 35.6%, attributable to the higher taxable income subject to regular corporate income tax. **Deferred taxes** at (P685) million, on account of the higher write-offs for the year.

Income attributable to non-controlling interest increased P28 million, or 11.3%, because of higher income contribution from the Bank's non-life insurance affiliates.

Comprehensive Income

Total comprehensive income at P28.8 billion, increased P6.9 billion, or 31.5%, due to increases in both **net income before minority interest** by P5.8 billion, or 24.7%, and **total other comprehensive income, net of tax effect** by P1.4 billion, or 109.9%.

Share in other comprehensive income of associates at P1.3 billion, jumped P2.6 billion, or 200.4%, due to the upward market valuation of investments of the bancassurance affiliates. **Fair value reserve on investments of insurance subsidiaries, net of tax effect** at P545.3 million, increased P945 million, or 236.4%, as a result of higher market valuation of the bancassurance affiliates' investment funds. **Net change in fair value reserve on FVOCI securities, net of tax effect** at (P51) million, increased P739 million, or 93.5%, on account of higher market valuation of the Bank's investment securities. **Currency translation differences** at (P202) million, decreased P176 million, or 684.6%, on account of the net effect from cash flow hedging. These increases were partly tempered by the decreases in **remeasurements of defined benefit obligation**, of P2.0 billion due to change in financial assumption, and **share in other comprehensive gain (loss) of associates** of P627 million, due to the remeasurement/fair valuation of BPI-Philam's liabilities, property, and equipment.

Comprehensive income attributable to non-controlling interest increased P279 million, or 171.8% due to higher market valuation of the insurance's subsidiaries' investments.

2020 vs. 2019

In Million Pesos	2018 (restated)	2019 (restated)	2020	CAGR
Net Interest Income	55,617	65,575	72,264	14.6%
Non-Interest Income	21,003	26,687	29,659	8.9%
Impairment Losses	4,719	5,562	28,000	94.7%
Operating Expenses	42,085	48,344	48,154	7.7%
Net Income	23,078	28,803	21,409	-1.5%

The Bank's compounded annual net income in the last three years declined -1.5%, as the growth in pre-provision operating income was offset by the acceleration in impairment losses, due to the pre-emptive provisioning in anticipation of higher non-performing loans as a result of the COVID-19 pandemic. Net interest income and non-interest income increased by 14.6% and 8.9%, respectively, but were tempered by the higher operating expenses, which also increased in the last three years by 7.7%.

On November 18, 2020, the Board of Directors approved the transfer of the Parent Bank's majority ownership via the sale of BPI's 2% share in BPI CTL to TCC, effective December 22, 2020. This resulted in a 49% to 51% ownership structure between BPI and TCC. The loss of control of the Parent Bank over BPI CTL resulted in the deconsolidation of the finance lease operations and was presented as a discontinued operation.

Accordingly, the Bank's **net income attributable to equity holders arising from continued operations** reached P21.41 billion, decreased P7.39 billion, or 25.7%, from the P28.80 billion recognized in the prior year. This amount is net of the **loss arising from the discontinued operations** of (P211) million resulted from the recent transaction. Moreover, the decline in net income was primarily from the P28.0 billion **impairment losses** booked for the full year 2020, as the economic slowdown leads to an increase in non-performing loans. However, total revenues for the year increased by 10.5%, to P101.92 billion, and **operating expenses** amounted to P48.15 billion, almost flat compared to previous year, declined -0.4%.

Net interest income stood at P72.26 billion, up P6.69 billion, or 10.2%, on account of the P119.81 billion, or 5.8%, expansion in average asset base, and 14-basis point expansion in margins.

- **Interest income** decreased P4.18 billion, or 4.2%, compared from the P100.49 billion of the same period last year. Interest income **on loans and advances** decreased P3.74 billion, or 4.4%, on the back of lower asset yields, down by 84 bps, despite higher average volume by P122.8 billion. Interest income **on financial assets** likewise decreased P657 million due to lower asset yield, despite higher average volume. However, interest income **on deposits with BSP and other banks** increased P222 million, or 12.9%, as both average volume and yield rose by P33.06 billion and 57 bps, respectively.

- **Interest expense** of P24.04 billion, decreased P10.87 billion, or 31.1%, on the back of the decreases in both interest expense **on deposits** at P18.99 billion, down P9.89 billion, or 34.2%, and **on bills payable and other borrowings** at P5.06 billion, down P980 million, or 16.2%, due to higher average volume despite lower interest cost.

Other income at P29.66 billion, up P2.97 billion, or 11.1%, higher than the P26.69 billion earned in the same period of 2019. The increase was primarily from the **net gains on disposals of investment securities at amortized cost** at P4.65 billion, up P4.52 billion, or 3,520.2%, as the Bank sold a portion of debt securities portfolio. **Income attributable to insurance operations** also increased P282 million, up 23.1%, to P1.51 billion, due to higher income contribution from the Bank's life and non-life insurance affiliates. On the other hand, **other operating income** at P9.14 billion, decreased P1.13 billion, or 11.0%, due to decline in gain in asset sales and credit card income.

Other expenses at P48.15 billion, decreased P190 million, or 0.4%, due to controlled spending: **Compensation and fringe benefits** at P18.01 billion, was up P636 million, or 3.7%, on increased manpower compensation and Bank contribution to retirement fund;

- **Occupancy and equipment-related expenses** at P14.61 billion, down P129 million, or 0.9%, due lower rent and utilities costs;
- **Other operating expenses** at P15.54 billion, also decreased P697 million, or 4.3%, due from lower costs for advertising and publicity, and miscellaneous expenses.

Impairment losses stood at P28.0 billion, 5.0x more than the P5.56 billion set aside in 2019, due to pre-emptive provisioning on anticipated credit loss.

Provision for income tax at P3.91 billion, lower by P5.45 billion, or 58.2%, relative to the P9.36 billion from last year. **Current taxes** at P10.75 billion, was higher by P775 million, or 7.8%, attributable to the higher taxable income subject to regular corporate income tax. **Deferred taxes** at (P6.84) billion, up 1,003%, on account of the higher provisioning set-up for the year.

Income attributable to non-controlling interest increased P4 million, or 1.6%, due from higher income contribution from the Bank's non-life insurance affiliate.

Comprehensive Income

Total comprehensive income at P18.26 billion, decreased P10.95 billion, or 37.5%, due to decreases in both **net income before minority interest** by P7.14 billion, or 24.6%, and **total other comprehensive income (loss), net of tax effect** by P3.53 billion, to (P3.39) billion. The total comprehensive income was net of the **loss arising from the discontinued operations** of P215 million.

Net change in fair value reserve on FVOCI securities, net of tax effect at P643 million, increased P694 million, on account of higher market valuation of the Bank's investment securities. On the other hand, loss from **remeasurement of defined benefit obligation** increased P1.98 billion, to (P3.38) billion, due to change in financial assumption. **Share in other comprehensive loss of associates** at (P1.24) billion, also increased P1.21 billion, due to the lower market valuation of the life insurance affiliate's investments securities. **Share in other comprehensive income of associates** at P640 million, also decreased P646 million, due lower accumulated fluctuation reserves of the Bank's insurance affiliate. **Fair value reserve on investments of insurance subsidiaries, net of tax effect** at P195 million, declined P350 million, or 64.2%, as a result of lower market valuation of the insurance subsidiaries' investment funds. Loss from **currency translation differences** at (P238) million, increased P36 million, or 18.0%, on account of the net effect from cash flow hedging.

Comprehensive income attributable to non-controlling interest decreased P127 million, or 28.7% due to lower market valuation of the insurance's subsidiaries' investments.

Key Performance Indicators

	2018	2019	2020
Return on Equity (%)[1]	10.2	11.0	7.7
Return on Assets (%)[1]	1.2	1.4	1.0
Net Interest Margin (%)[1]	3.1	3.3	3.5
Operating Efficiency Ratio (%)	54.9	52.4	47.2
Capital Adequacy Ratio (%)[2]	16.1	16.1	17.1

[1] Using daily average method
[2] Basel III Framework

The Bank's capital ratios for the last three years showed a robust capital position with sufficient loss-absorption buffer for any potential adverse scenario. Profitability metrics have also been consistent but reflect the impact of this year's elevated provisioning. Notwithstanding the decline in operating expenses due to limited business activity brought about by the pandemic in 2020, the Bank's strong cost discipline is evident in the improving efficiency ratio trend. The same ratios are also used to evaluate the performance of the Bank's subsidiaries.

Return on equity (ROE), the ratio of net income to average equity, and **Return on assets (ROA)**, the ratio of net income to average assets, were lower at 7.7% and 1.0%, respectively, as a result of the decline in net income of 25.7%

Net interest margin (NIM), net interest income divided by average interest bearing assets, at 3.5% was higher by 14 basis points than the 3.3% in 2019 on lower cost of funds.

Operating efficiency (cost to income) ratio, the ratio of operating expenses to income, improved to 47.2% from 52.4%, as the growth in revenues of 10.5% outpaced the increase in operating expense.

Capital adequacy ratio (CAR), the ratio of total qualifying capital to total risk-weighted assets, was at 17.1%, higher versus the prior year's 16.1%, as qualifying capital grew and risk-weighted assets declined. The CET 1 ratio at 16.2%, was also higher than the 15.2% from the same period last year. Both of the Bank's capital ratios are above the BSP's minimum requirement.

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.

Using simple average method:	2019	2020
Return on Equity (%)	11.1	7.8
Return on Assets (%)	1.3	1.0
Net Interest Margin (%)	3.3	3.4

Details of the basic quantitative indicators of financial performance are reflected in Note 31 of the 2020 Audited Financial Statements.

Material Event/s and Uncertainties:

Other than the disclosure enumerated above, the Bank has nothing to report on the following:

a) Any known trends, demands, commitments, events or uncertainties that will have a material impact on its liquidity.

b) Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

c) Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unconsolidated entities or other persons created during the reporting period.

d) Any material commitments for capital expenditures.

e) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.

f) Any significant elements of income or loss that did not arise from the Bank's continuing operations.

g) Any seasonal aspects that had a material effect on the financial condition or results of operations.

Future Prospects

The COVID-19 pandemic, which compelled the Philippines to impose restrictions on mobility, has resulted to a 9.5% economic contraction in 2020. The last time the GDP shrank by this much was more than 30 years ago, during the 1980s debt moratorium.

With the economy slowly reopening, local demand will most likely improve although a full recovery is not expected in 2021. The lack of foot traffic in malls and other public areas continues to dampen the demand for goods and services that involve human contact, while the decline in household income amid the pandemic has forced consumers to tighten their belts. However, e-commerce and the widespread use of delivery services are expected to cushion the decline in consumer spending.

The availability of a vaccine in the second half of 2021 may accelerate the recovery of the economy. We are expecting a 6.8% growth rate in 2021, coming from a low base in 2020. We also note that uncertainties still remain and may possibly pull down growth this year. A second wave of infection could overwhelm the health system and force the government to implement stricter restrictions, similar to the experience of other countries. In addition, government underspending may prevent the economy from building the needed infrastructure that can fast track its recovery.

Philippines COVID-19 Stimulus Response

The national government has implemented stimulus measures to support the economy. Stimulus measures aside from support on the healthcare system have included direct distribution of cash and goods to the general public, short term tax and social security relief.

The government's fiscal response has been quite modest with on-budget spending increasing by 11.3% in 2020, lower than 2019's full-year growth of 11.4%. Despite this, the country's budget deficit expanded from 3% in 2019 to around 7.6% of GDP in 2020 as collections of the Bureau of Internal Revenue and the Bureau of Customs fell sharply.

The BSP, on the other hand, has been implementing more forceful measures to cushion the economy's contraction. It has reduced its policy rate by 200 bps from 4.00% to 2.00% and its reserve requirement ratio by 200 bps from 14% to 12%. These have been one of the most aggressive monetary policy responses among the major ASEAN economies in 2020. The BSP has also implemented unprecedented measures including purchase of government securities and easing of regulatory requirements on banks. These aggressive actions have been made possible by the stable inflation environment, which settled at average of 2.6% in 2020.

Inflation and Interest Rates

Looking ahead, the Bank sees upside risks that could keep inflation above 4% in the coming months. The distribution of vaccines may lift global demand and push oil prices higher. However, even at current levels, price of oil is expected to register a 200% year-on-year increase in the second quarter given the low base from last year. In addition, supply constraints especially in the meat sector will likely continue for the remainder of the year as the swine industry may take some time to address the impact of the African Swine Fever. Inflation risk along with the steepening of the US Treasury yield curve and additional borrowing from the government may exert upward pressure on interest rates.

Exchange Rate

The Peso has been the strongest currency in Asia in 2020. The huge decline in the demand for US dollar as a result of the drop in imports and international travel has supported the local currency. Due to weak US dollar demand, the BSP has also been able to build up its Gross International reserves to a record high of US$110 billion as of December 2020.

With the economy slowly reopening, the Bank expects imports to recover in the coming months in line with the expected improvement in local demand. Hence, demand for US dollar may pick up and the exchange rate may move closer to PHP49 to a US dollar. Risk to this outlook includes public sector spending remaining below target, especially in infrastructure. With businesses still struggling, the lack of fiscal support and public construction may stall the recovery and dampen the demand for capital goods.

Implications on Business and Strategy

Main insights from 2020 are that:
- Banking is under threat from multiple fonts - pressure on NIMs, pressure on fees, NPLs rising, credit cost rising, intensified competition, regulatory challenges, and
- Transformation is critical – the world is changing, the consumer is changing, and COVID-19 accelerated trends that are already underway, such as digital being a major transformation catalyst.

We navigated through the unprecedented times brought about by the pandemic by initially focusing on safety and survival, and moved to ensuring operational resilience. BPI implemented various modifications to physical operations which ensured business continuity and safety of both our employees and customers.

For the near-term, we will position for recovery by:
- Reallocating resources for future growth,
- Realigning our various asset portfolios,
- Boosting productivity to improve cost efficiency, and
- Transforming the organization.

In line with this, our strategic imperatives will continue to focus on five key areas.
1. **Growing our high margin businesses** – SMEs, Consumer, and Microfinance – despite taking a pause this year to focus on asset quality preservation given weak market demand.

2. **Strengthening our funding franchise**, where our diversified mix of deposits and debt ensure ample liquidity and optimized cost of funds for the Bank.

3. **Executing our five-point digital strategy founded on these pillars:**
   - **Mobile first omni-channel experience** to allow customers to open bank accounts in any branch and have all other subsequent transactions take place digitally.
   - **Shape the customer experience** through tailor-fit service platforms to suit their needs based on data analytics and insights. Such is the case for our clients using Bizlink, an all-in-one digital platform which houses multiple products and services that extend beyond traditional cash management.
   - **High tech, high touch** by allowing customers to conduct self-service transactions, branch operations can focus on specialized customer services.
   - **Open banking** to be a key focal point of financial intermediation by serving customers in as many ways as possible by partnering with various fintech providers who offer services like e-wallets and funds transfer.
   - **Industry class infra** that is secure, reliable, and private, underpinned by the upgrade of our core banking systems. Our mission is to guarantee the security of our clients' financial assets while championing the education of clients on cybersecurity.

4. **Deepening our client relationships** in the new normal while improving risk-adjust returns. We have solidified our foothold in the corporate space by helping Philippine conglomerates, large corporates, and multinational companies grow their businesses, manage their operations, and mitigate risks

5. **Rationalizing our distribution channels to achieve further cost efficiency.**

Our distribution strategy transformation involves the re-balancing of our traditional and digital channels. The operational limitations brought about by the lockdowns, strengthened our view to continue to rationalize, consolidate, and optimize our branch network. For our digital channels, we have embarked on accelerating the growth of BPI as “the Everyday Bank”, through our open banking ecosystem and regular launches of new platform functionalities.

Sustainability

Globally there is a trend towards ESG, particularly on climate change which is a top priority for key stakeholders. The growing demand for ESG-aligned products, with investors wanting to hear more on ESG from banks, has spurred the issuance of ESG-related regulations such as BSP Circular 1085: Sustainable Finance Framework and SEC Memorandum Circular No. 4, Series of 2019: Sustainability Reporting Guidelines for Publicly-Listed Companies.

In 2020, we established the Board-approved BPI Sustainability Agenda which will guide the Bank on the integration of sustainability principles in the corporate governance and risk management frameworks, as well as in the strategic objectives and operations. We recognize the importance of integrating sustainability principles in order to create long-term value for our stakeholders and to positively contribute to an equitable society and healthy environment. Our Sustainability Agenda is guided by the provisions of BSP Circular 1085.

Our sustainability objectives are embodied in our updated Sustainability Strategy Framework (Strategy) with the pillars of Responsible Banking and Responsible Operations. The Bank believes that Responsible Banking is the key to creating long-term value for all our stakeholders. The Strategy supports BPI’s vision of Building a Better Philippines, and focuses on key ESG areas where the Bank can have the most impact.

There were approximately 12,280 common shareholders of BPI as of February 28, 2021.

Equity Ownership of Foreigners on Common Shares as of 28 February 2021

	Nationality	Number of Stockholders	Number of Shares	Percent of Holdings
1.	American	36	1,205,191	0.0267%
2.	Australian	1	3,369	0.0000%
3.	Brazilian	1	40	0.0000%
4.	British	3	24,132	0.0005%
5.	Canadian	8	50,771	0.0011%
6.	Cayman Islands	1	390,269,162	8.6474%
7.	Chinese	36	508,290	0.0112%
8.	Danish	1	1,000	0.0000%
9.	Dutch	1	447,245	0.0099%
10.	German	2	446	0.0000%
11.	Hongkong	1	240	0.0000%
12.	Indian	1	10,000	0.0002%
13.	Indonesian	3	182,417	0.0040%
14.	Japanese	1	187	0.0000%
15.	Non-Filipino (PCD)	2	926,484,327	20.5287%
16.	Others	3	19,274	0.0004%
17.	Singaporean	4	2,649	0.0000%
18.	Spanish	2	229,870	0.0050%
19.	Taiwanese	1	12,500	0.0002%
Total		**108**	**1,319,451,110**	**29.2360%**

Top 20 Stockholders as of February 28, 2021

	Name of Stockholders	Number of Shares Held	Percent of Holdings
1.	PCD Nominee Corporation (PCD)		
	(Non-Filipino)	926,468,816	20.5284%
	(Filipino)	746,516,521	16.5410%
2.	Ayala Corporation	1,000,261,934	22.1635%
3.	Liontide Holdings, Inc.	904,194,682	20.0348%
4.	AC International Finance Limited	390,269,162	8.6474%
5.	Roman Catholic Archbishop of Manila	327,904,251	7.2656%
6.	Michigan Holdings, Inc.	92,684,989	2.0536%
7.	Mercury Group of Companies	7,653,853	0.1695%
8.	Estate of Vicente M. Warns	7,550,868	0.1673%
9.	BPI ESPP 2019	5,760,130	0.1276%
10.	BPI Group of Companies Retirement Fund	4,174,243	0.0924%
11.	BPI ESPP 2018	3,986,340	0.0883%
12.	Xavier P. Loinaz	3,938,203	0.0873%
13.	BPI ESPP 2017	3,096,100	0.0686%
14.	Hermann Barretto Warns	2,920,000	0.0647%
15.	Bloomingdale Enterprises, Inc.	2,685,225	0.0594%
16.	Sahara Management & Dev. Corp.	2,535,146	0.0562%
17.	Foresight Realty & Development Corp.	1,958,595	0.0433%
18.	Hyland Realty & Dev't. Corporation	1,935,413	0.0428%
19.	BPI ESPP 2016	1,715,090	0.0380%
20.	Horizons Realty, Inc.	1,419,463	0.0314%
Total		**4,439,629,024**	**98.3711%**

Discussion of compliance with leading practices on corporate governance

I. Corporate Governance Framework.

We anchor our corporate governance framework on: (i) qualified and competent leadership, (ii) rigorous internal controls, (iii) an effective risk culture and (iv) strong accountability to shareholders. The Bank's corporate governance framework is defined by its Articles of Incorporation, Amended By-Laws and Manual on Corporate Governance, and takes into account the nature, size, complexity, business activities and requirements of the Bank as well as its group operations. Banking practices, guided by BPI's Board and Committee charters, the Manual of Corporate Governance, Code of Business Conduct and Ethics and internal operating manuals, reflect the integrity and ethics that define the Bank's decision-making, conduct and behavior, and are consistent with statutory laws, rules and regulations of the Bangko Sentral ng Pilipinas (BSP), Securities Exchange Commission (SEC), Anti-Money Laundering Council, Philippine Deposit Insurance Corporation, among others.

As a publicly listed company, BPI recognizes that robust corporate governance policies and practices promote a fair and sound market valuation of BPI shares and maintain the confidence of customers and investors alike. BPI strives to be jointly compliant with corporate governance and listed company disclosure requirements and standards of the SEC and the Philippine Stock Exchange. As an issuer in capital markets, the Bank also has a policy of continuous disclosure and transparency and utilizes disclosure mechanisms of the various exchanges in which its capital market issuances are traded. BPI also actively pursues alignment with best practices of counterparts in the region. The Bank strongly supports initiatives to strengthen regional capital market development and integration, especially through adoption of rigorous benchmarking methodology of the ASEAN Corporate Governance Scorecard. In addition, considering BPI's role in the group as parent and publicly-listed company, the Board maintains an effective, high-level risk management and oversight process across other companies in the group to ensure consistent adoption of or alignment with the aforementioned corporate governance policies and systems.

II. Board Governance

(a) **Advisory Council**. As part of the Bank's efforts to strengthen stewardship further, the Bank has a three member Advisory Council to the Chairman, created in 2016, composed of senior thought leaders, captains of industry and luminaries in their respective fields, the Advisory Council expands the range of expertise, experience, and collective wisdom available to the Bank.

(b) **Board of Directors**. Our fifteen-member Board plays a key role in setting our governance standards to meet our stakeholders' expectations. In 2020, Non-Executive Directors (NEDs) comprising a majority or 14 out of the 15, were elected to the Board in April. The only Executive Director (ED) is the President and CEO. The size of our Board is deemed appropriate given the complexity of operations of the Bank and the entire BPI group, our risk appetite the geographical spread of our business, and the significant time demands placed on the Directors. From the initial 7 elected at the April 2020 Annual Stockholders' Meeting, the Board at year-end December 31, 2020, had 5 Independent Directors (IDs).

Chairman and Vice-Chairman. The Board has a Chairman and Vice-Chairman, both of whom are non-executive directors. The Chairman, who is not the CEO of the Bank in the past three years, is separately appointed from the President and CEO. Said positions are currently held by two individuals who are not related to each other and have roles and responsibilities that are also separate and distinct, as detailed in the Manual on Corporate Governance. The Chairman guides the Board in its decision-making process and ensures that the Board operates effectively as a team. The Chairman also forges a very positive and constructive working relationship between the Board and management. With the Chairman at the helm, the Board sets the Bank's strategy and risk appetite, and approves capital and operating plans presented by management for sustainable achievement of strategic objectives. In the absence of the Chairman of the Board, the Vice-Chairman assumes and performs all the powers and duties of the Chairman of the Board.

Lead Independent Director. Under BSP Circular 969 "Enhanced Corporate Governance Guidelines for BSP Supervised Financial Institutions", amending Section X142.4.b. of the MORB, on the qualifications of the Chairperson of the Board of Directors, the Board of

Directors shall define the responsibilities of the Lead Independent Director, which shall be documented in the corporate governance manual. The Board of Directors shall ensure that the Lead Independent Director functions in an environment that allows him to effectively challenge the CEO as circumstances may warrant. The Lead Independent Director shall also perform a more enhanced function over the other independent directors and shall: (1) lead the independent directors at board of directors meetings in raising queries and pursuing matters; and (2) lead meetings of independent directors, without the presence of the executive directors. Last May 7, 2018, the BPI Board approved the amendment to the Manual on Corporate Governance providing for the designation of a Lead Independent Director role in the Board. And in the Organizational Meeting of the Board of Directors following the 2020 Annual Stockholders Meeting, the Board appointed independent member Octavio V. Espiritu as Lead Independent Director.

Diversity and Independence. Our leadership model ensures an appropriate balance of power, accountability and independence in decision-making. As disclosed on the company website, the Bank's Diversity Policy, adopted in 2015 to institute diversity at the board level; the 2020 Board of Directors elected in April 2020 included three women, one of whom is also an Independent Director, comprising 20% of the Board. Seven (7) Independent Directors were elected to the 2020 Board, compliant with the regulatory requirement to have at least one-third (1/3) but not less than two (2) Independent Directors as members of the board. However, at year-end December 31, 2020, the Board had five (5) Independent Directors as one resigned for health reasons while another was reclassified by the BSP as a regular director. On January 20, 2021, Mr. Cesar V. Purisima was elected for the remainder of the 2020 to 2021 term, as a new Independent Director, subject to the confirmation of the Monetary Board of the BSP. The resulting six (6) Independent Directors constitute 40%, which is key to fairness and integrity, and allows the board to strike a balance between public, corporate and all stakeholder interests.

(c) **Board Charter**. The charter of the Board articulates with specificity the governance and oversight responsibilities exercised by the directors and their roles and functions in the Bank. It includes provisions on board composition, Board Committees, and board governance, subject to the Bank's Articles of Incorporation, Amended By-Laws, and applicable laws. It is incorporated in Bank's Manual on Corporate Governance and is reviewed together with the annual review of the Manual. As stated in the Charter, the Board's key areas of focus include:

- Governance – ensuring that corporate responsibility and ethical standards underpin the conduct of BPI's business; developing succession plans for the Board and CEO; establishing the general framework of corporate governance for the Bank;
- Strategy - reviewing BPI's strategic and business plans; growing the business sensibly and building resilience into the franchise;
- Risk management – ensuring that effective risk management, compliance and assurance processes undergird our business;
- Financial performance – monitoring management performance; achieving goals and targets;
- Sustainability - considering sustainability issues (including environmental and social factors) and including these as part of the Bank's strategy.

(d) **Board Committees**. To heighten the efficiency of board operations, the Board has established Committees that assist in exercising its authority for oversight of internal control, risk management, and performance monitoring of the Bank. In 2020, the Bank had eight board-level committees: Executive, Risk Management, Audit, Corporate Governance, Personnel and Compensation, Nominations, Retirement and Pension, and Related Party Transactions Committees. Board-level committee memberships were also evaluated and calibrated to improve on the committees' focused oversight and high level engagement with management. The respective charters stating committee purpose, membership, structure, operations, reporting processes and other information, are disclosed in regulatory reports and posted on the company website. Annual performance reviews are conducted by all board-level committees.

(e) **Corporate Secretary**. The Board is assisted in its duties by a Corporate Secretary who is not a member of the Board of Directors and is a senior, strategic-level corporate officer who plays a leading role in the Bank's corporate governance, serving as an adviser to the directors on their responsibilities and obligations. The Board has separate and independent access to the Corporate Secretary. All directors and board committees also have unrestricted access to company records and information in addition to receipt of regular detailed financial and operational reports from senior management. Our Corporate Secretary is suitably trained and experienced in legal, accountancy or company secretarial practices and is professionally qualified for these responsibilities. Our Corporate Secretary also possesses the legal skills of a chief legal officer whose training is complemented by business, organizational, human relations and administrative work skills. Our Corporate Secretary is also Corporate Secretary or Deputy Corporate Secretary of various BPI subsidiaries and affiliates.

(f) **External Advice**. Considering the increasing complexity of market transactions and rapid rate of change in the regulatory sphere, the Board, if so requested by the Chairman or other directors, can call on external specialists or consultants for advice, briefings or assistance on specialized areas of focus such as accounting standards, related party transactions, capital, tax, listing, mergers and acquisitions, valuation, etc. Management can arrange for the external auditor, management services company or consultants to present to the Board and the Bank.

(g) **Nominations**. As we are a financial institution imbued with public interest, fit and proper qualifications for membership in our Board of Directors are dictated by our Amended By-Laws, Manual on Corporate Governance, the Corporation Code, and relevant regulations of the Bangko Sentral and the SEC. As a publicly listed company, we also ensure that Board composition and director qualifications also meet pertinent governance regulations, requirements, and standards of the PSE. As disclosed in the Manual on Corporate Governance, candidates for directorship may be recommended by shareholders to the Nominations Committee through the Office of the Corporate Secretary. Among other qualifications, candidates must be fit and proper for the position of a director, taking into consideration integrity/probity, physical/mental fitness, relevant education/financial literacy/training, possession of competencies relevant to the job such as knowledge and experience, skills, diligence and independence of mind and sufficiency of time to carry out responsibilities. Candidates recommended by shareholders are evaluated in the same manner as director candidates identified by any other means. The Committee itself may likewise identify and recommend qualified individuals for nomination and election to the board and may make use of professional search firms or other external sources to search for qualified candidates to the board. Separate qualifications and disqualifications for Independent Directors based on regulations, are enumerated in the Bank's Manual on Corporate Governance. Directors must remain qualified throughout the term. All of the Bank's annual reports contain comprehensive profiles of the Board of Directors which disclose the age, qualifications, date of appointment, relevant experience and directorships both in the BPI group as well as in other companies, listed or otherwise. In compliance with SEC Memo.Cir. No. 11, s2014, the Bank also posts biographical details of the Board of Directors and Senior Management on the company website.

(h) **Election and Term of Directors**. Board members are elected by BPI stockholders who are entitled to one vote per share at the Bank's Annual Stockholders Meeting. Voting for the election of members of the Board is considered in a poll, by shares of stock, that is, one share entitles the holder to one vote, two shares to two votes. Votes may be cumulated as provided for in the Corporation Code. The fifteen nominees receiving the highest number of votes are declared elected. The Bank's Amended By-Laws state that elections for the Board of Directors will be held yearly during the Annual Stockholders Meeting. Directors are to hold office for a term of one (1) year immediately upon their election and until the next election when their successor shall have been elected and qualified in accordance with the Amended By-Laws and Corporation Code. No meeting of stockholders shall be competent to transact business unless a majority of the outstanding and subscribed capital stock entitled to vote is represented, except to adjourn from day to day or until such time as may be deemed proper. The Rules of Conduct, voting and vote tabulation procedures are explained during the Annual Stockholders Meeting. In its meeting held on February 26, 2020, the Executive Committee approved Management's recommendations for BPI to provide the Bank's stockholders with the option to vote in absentia in the 2020 ASM. Hence, at the April 23, 2020 ASM, stockholders were able to effectively participate and had the option to cast votes in absentia through an online electronic system, as also provided for in the Revised Corporation Code. The Office of the Corporate Secretary tabulates all votes received and the Bank's external auditor validates the results. Voting results are likewise disclosed on the various exchanges where BPI's capital market issuances are traded and the company's website as soon as possible after the meeting. The election/appointment of directors/officers must also be confirmed by the Monetary Board of the BSP. Elected/appointed directors/officers must submit required certifications and other documentary proof of qualifications for the confirmation of their election/appointment. The nomination and election processes and their effectiveness, are reviewed annually by the Nomination Committee during its review of the committee charter and its self-assessment, by its members, of committee performance. In adherence to Recommendation 2.6 of the SEC CG Code for PLCs, these nomination and election policies are disclosed in BPI's Manual on Corporate Governance as well as on the company website.

(i) **Continuing Education**. The Bank ensures that it has in place a formal board and director development program. For new directors, there is a deliberate, systematic and rapid familiarization with the organization and the operations of the board, Articles of Incorporation and Amended By-Laws, Manual of Corporate Governance, Board Charter as well as the Code of Conduct, standards of Conflict of interest and policies such as Insider Trading, Whistleblowing, Anti-Bribery and Anti-Corruption, Data Privacy and Related Party Transactions. The Bank, through its various units, also provides continuing director education in relation to current developments; these include regulatory initiatives with respect to Data Privacy, Cyber Risk and Cyber Security, the Anti-Money Laundering and Terrorist Financing Prevention Program, Foreign Account Tax Compliance Act, Securities Regulations Code, Sustainability Issues and ESG Reporting, SEC memorandum circulars, and BSP regulations, among others. All of the Bank's directors undergo the requisite corporate governance seminar provided by an SEC or Bangko Sentral-accredited institution. On November 10, 2020, members of the Board, including senior officers of the Bank, attended the Annual CG Training Program conducted by the Institute of Corporate Directors (ICD). Other directors attended the Corporate Governance Training conducted by Risks, Opportunities, Assessment and Management (ROAM) on September 25, 2020, Advanced Corporate Governance Training conducted by the ICD on October 15, 2020 and Business Continuity Panning: Executive Briefing for Board of Directors and Management conducted by Center for Global Best Practices on October 23, 2020.

(j) **Remuneration**. BPI's remuneration decisions for the Board and management are aligned with risk incentives and support sustainable, long-term value creation. Apart from ensuring that Board and management pay appropriately reflects industry conditions and financial performance, the Bank likewise rebalances returns back to shareholders through consistent dividend declaration. Under the Bank's Amended By-Laws, as approved by the shareholders, the Board, as a whole, determines the level of remuneration and/or benefits for directors sufficient to attract and retain directors and compensate them for their time commitments and responsibilities of their role. The Personnel and Compensation Committee recommends to the Board the fees and other compensation for directors, ensuring that compensation fairly remunerates directors for work required in a company of BPI's size and scope. As provided by the Amended By-Laws and pursuant to a Board resolution, each director is entitled to receive fees and other compensation for his services as director. The Board has the sole authority to determine the amount, form, and structure of the fees and other compensation of the directors. In no case shall the total yearly compensation of the Board exceed 1% of the Bank's net income before income tax during the preceding year. Directors receive per diems for each occasion of attendance at meetings of the Board or of a board committee. All fixed or variable remuneration paid to directors may be given as approved by stockholders during the ASM, upon recommendation of the Personnel and Compensation Committee. Other than the usual per diem arrangement for Board and Committee meetings and the aforementioned compensation of Directors, there is no other standard arrangement as regards compensation of directors, directly or indirectly, for any other service provided by the directors for the last completed fiscal year. Directors with executive responsibilities within the BPI group are compensated as full-time officers of the company, not as Non-Executive Directors. No director participates in discussions of the remuneration scheme for himself or herself. Historically, total compensation paid annually to all directors has been significantly less than the cap stipulated by the Bank's Amended By-Laws. The remuneration policy is reviewed annually to ensure that it remains competitive and consistent with the Bank's high performance culture, objectives, long-term outlook, risk assessment, and strategies. This relationship between remuneration and performance aligns remuneration of the Board with the long-term interests of the Bank.

(k) **Performance Evaluation**. The Board conducts an annual board effectiveness review under the guidance of the Corporate Governance Committee, which ascertains alignment of leadership fundamentals and issues, and validates the Board's appreciation of its roles and responsibilities across four levels: the Board as a body, Board Committees, individual Directors, and President and CEO. Key evaluation criteria are built on the Board's terms of reference and committee charters, and framed around broad leadership fundamentals and best practices. Such an exercise will be conducted in early 2021 to assess the 2020 performance of the Board.

(l) **Succession Planning**. The Board understands the importance of succession planning and, through its Personnel and Compensation Committee (PerCom), manages the talent pipeline and assembles the right executive and leadership appetency capable of navigating the Bank through strategic, market, technology and regulatory shifts. In consultation with the Board and the President and CEO, either the PerCom evaluates and nominates potential successors to the President and CEO, as well as ensures there is a sufficient pool of qualified internal candidates to fill other senior and leadership positions. The Bank's effective succession planning has ensured leadership continuity within the last two decades, witnessing three President and CEO changes, marked by early planning and mentoring, smooth organizational and operational transitioning and prudent but progressive institutional building at BPI and across the BPI group. We believe that it is crucial to have a good balance between continuity and fresh perspectives on the Board. In much the same way, our Board is regularly refreshed in a continuing cycle. The Nomination Committee and the Corporate Governance Committee work within a general board succession plan framework to ensure that the Board is able to fulfill its fiduciary duties so that the Bank remains relevant, agile, and anticipatory of future programs and directions.

(m) **Retirement Policy**. The Bank believes that imposing uniform and fixed limits on director tenure is counter-productive as it may force the arbitrary retirement of valuable directors. It is the Bank's strong view that with age often comes unmatched wisdom and experience, expert business judgment, invaluable industry and community relations and authority, and that the best interests of the Bank are served by its being able to retain directors that make very meaningful contributions to the Board and the organization regardless of age. The Bank, therefore, sets the retirement age for Directors at 80 years of age but which the Board may opt to waive depending on specific conditions. Term limits of Independent Directors are set at a maximum cumulative term of nine (9) years as prescribed in the Manual of Regulations for Banks and SEC Mem.Cir.No. 9, Series of 2011 and No. 4, Series of 2017. Retirement of senior management is done with the requisite succession planning and in accordance with the Bank's policies and implementing guidelines of its retirement plan for all employees, the Bank's Amended By-Laws, Labor Code and the Corporation Code of the Philippines. Currently, the retirement age for employees of the Bank is set at 60 years of age.

III. Risk, Control, and Compliance Oversight and Management Relations

(n) **Audit.** Based on Internal Audit assurance activities, Internal Audit provides reasonable assurance to the Audit Committee, Board of Directors and Senior Management that the Bank's systems of internal controls, corporate governance, and risk management processes are adequate and generally effective. This unit reports directly to the Board through its Audit Committee. It collaborates with other assurance providers such as the Risk Management Office, Compliance Office, external auditors, and other oversight units. Through this system for the comprehensive monitoring and review of risks and compliance in the institution, the Board ensures that the Bank and all business units proactively manage the risk and compliance exposures impacting the business. The Internal Audit Division is headed by a Chief Audit Executive who is appointed by the Board and reports functionally to the Board of Directors through the Audit Committee and administratively to the President and CEO. The Audit Committee recommends to the Board the appointment of a Bangko Sentral-accredited external auditor for the purpose of preparing or issuing an audit report or related work. The appointment or re-appointment of the Bank's external auditor is subject to the approval and endorsement by the Audit Committee, for subsequent confirmation and approval by the Board of Directors and finally the Stockholders.

(o) **Risk Management**. In the same way, the Board's Risk Management Committee, with the assistance of management's Risk Management Office (RMO) and its Chief Risk Officer (CRO), reviews and recommends the Bank's enterprise risk and capital management framework to ensure that it conforms not only to the Bank's own rigorous standards, but also to Bangko Sentral directives promoting an effective Internal Capital Adequacy Assessment Process. The Chief Risk Officer is appointed by the Risk Management Committee, with approval and confirmation of the Board. The CRO is responsible for leading the formulation of risk management policies, methodologies, and metrics in alignment with the overall strategy of the Bank, ensuring that risks are prudently and rationally undertaken and within the Bank's risk appetite, as well as commensurate and disciplined to maximize returns on capital. The CRO and the RMO facilitate risk management learning programs and promote best practices on an enterprise-wide basis. The RMC also assesses the annual performance of the Chief Risk

Officer and risk management functions taking into account how it carried out its duties and responsibilities.

(p) **Compliance.** Oversight of the management of the Bank's business risk and implementation of its compliance function is the responsibility of our Board of Directors, through the Audit Committee. At the management level, the compliance function is carried out by the Compliance Office, led by our Chief Compliance Officer (CCO). Designated by the Chairman of the Board, our CCO, is not a member of the Board of Directors and has the rank of at least a Vice President. The CCO's qualifications are subject to the applicable provisions of the Manual of Regulations for Banks, particularly considering fit and proper criteria such as integrity/probity, competence, education, diligence, experience and training. The CCO annually attends corporate governance training.

(q) **Strategy Process**. The Bank's vision, mission, strategic objectives, key policies and procedures for management of the company are clearly established and communicated down the line. The Board of Directors creates the framework within which the executive team, under the President and CEO, can lead the business and deliver the agreed strategy. The Board conducts a periodic review of the foregoing and has continuing oversight in its implementation. The management team articulates the agreed strategy in periodic planning exercises and distills business plans in formal budgets. Periodic performance reviews are conducted against budgets and past performance. Management acts in accordance with well-defined operating policies and procedures, and ensures accuracy and transparency of operational and financial reporting to protect the Bank's reputation for integrity and fair dealing. The management team strives to achieve accountability in revenue performance, efficiency in expenditure of resources, and high quality in delivery of services and achievement of customer satisfaction. Management is periodically reviewed and rewarded according to performance relative to innovation, initiatives, assigned targets, and feedback from customers, peers, and Board. The President heads a management team who lead supervise work of the Bank's business units, which includes but is not limited to the Chief Finance Officer, Chief Risk Officer, Chief Audit Executive, and Chief Compliance Officer who provide focused and strategic, functional leadership and expertise. Management level committees are in place to deal with operational functions from a strategic level and serve as counterpoints to senior and mid-level managers.

IV. Corporate Governance Policies and Practices

(r) **Manual on Corporate Governance**. The Bank has a Manual on Corporate Governance which documents the framework of policies, rules, systems and processes in the corporation that governs the performance by the Board of Directors and Management of their respective duties and responsibilities to stockholders and other stakeholders. A certification on the Bank's full compliance with the Manual, signed and issued by the Chief Compliance Officer, is posted on the Corporate Governance section of the company website. The Manual on Corporate Governance, reviewed annually, was last amended in early 2020, and amendments were approved by the Board of Directors on February 19, 2020. When updated or amended, the Manual is resubmitted to the SEC. The Manual is also posted on the company website.

(s) **Code of Conduct**. BPI has Codes of Business Conduct and Ethics for its directors, officers and employees that provide the key practices and behaviors derived from the BPI Credo and Core Values, that guides what they say and do, in order that the right decisions are taken in performing their respective roles and responsibilities across various functions in the Bank and in handling relationships with all stakeholders.

Employee Code of Business Conduct and Ethics. The Code is applicable to and mandatory for all BPI employees at all levels, including officers, as are the core values embodied in the Bank's Credo. As no code could address every situation an employee may encounter, all employees, including officers, are required to follow both the spirit and the letter of the Code, its policies, and procedures. All BPI officers and employees must abide and fulfill their duty and personal responsibility to read, understand and comply with the Code. All officers and employees undergo annual mandatory training on the Code of Conduct.

Director's Code of Conduct. BPI has a Code of Conduct for its Board, adopted in September 2017, which applies to and is binding on all directors of the Bank. The Director's Code is intended to provide guidance to directors, whether executive, non-executive or independent, with policies on standards for conduct of the business of the Bank, the protection of its rights and its stakeholders, maintaining BPI's reputation for integrity, and fostering compliance with applicable laws and regulations. The Director's Code, therefore, sets forth policy in several basic areas that commonly require directors to exercise sound and informed judgment, recognize and deal with ethical issues, report possible unethical conduct, and foster a culture of openness, fair dealing, diligence and accountability.

Compliance with the Codes. All employees, including senior officers and directors, acknowledge annually, through a Statement of Affirmation, that they have read and understood the employee Code of Conduct and/or the Director's Code, respectively, as well as the Manual on Corporate Governance, and fully comply and adhere to principles, standards, and policies therein.

(t) **Conflict of Interest**. BPI does not tolerate those who place their interest above that of our institution, our clients, or our business partners. We have in place standards on conflict-of-interest that elevate the interest of the Bank above that of the personal interests of Directors, officers, and employees. These standards prohibit Directors, officers, and employees from using their position of authority or rank to directly or indirectly derive personal gain or advantage. Our standards on conflict of interest expect all Directors, officers and employees to refrain from any conduct that could be viewed unfavorably by our clients, co-employees, competitors, suppliers, investors, regulators, or the public. The standards also require full cooperation and provision of complete and accurate information from employees during government, regulatory or internal enquiries, investigations and audits. The standards also cover specific conflict-of-interest situations such as receipt of gifts from third parties, respect for trade secrets, and use of non-public information, and use of company funds, assets and information. All officers and employees undergo annual mandatory training on the Code of Conduct which includes training on the Conflict of Interest standards.

(u) **Whistleblower Policy**. This policy covers all employees of BPI and all wrongful acts that adversely impact the Bank and its stakeholders. Under the policy, it is the responsibility of all personnel to comply with rules and regulations of the Bank and to report violations or suspected violations in accordance with the policy. Anybody who knowingly aids, abets, or conceals or otherwise deliberately permits the commission of any irregular or fraudulent act directed against the Bank shall be considered as guilty as the principal perpetrators of the fraud or irregularity. Hence, all employees have a duty to cooperate with investigations initiated under the policy. No action will be taken against anyone for reporting such violations in good faith, or participating or assisting in investigations of a suspected violation. Any act of retaliation against a whistleblower is a violation of the Whistleblower Policy and Code of Business Conduct and Ethics. All officers and employees undergo annual mandatory training on the Code of Conduct which includes training on the Whistleblower Policy.

(v) **Related Party Transactions Policy**. This policy guards against internal conflicts of interest between the company and/or its group and their directors, officers and significant shareholders and ensures that transactions such as loans and advances, deposit arrangements, trading of government securities and commercial papers, sale of assets, lease of bank premises, investment advisory/management, service arrangements and advances for operating expenses are made in the normal course of banking activities with terms and conditions that are generally comparable to those offered to non-related parties or to similar transactions in the market. Vetting transactions with related parties is done either by the board-level Related Party Transaction Committee (RPTC) or Management Vetting Committee (MVC), depending on materiality, prior to implementation. The two committees provide guidance and vet on credit and non-credit related party transactions of significant amounts (P50Mn and above for RPTC and below P50Mn for MVC). Related party transactions are properly disclosed in BPI's audited financial statements, and applicable fillings in accordance with relevant rules and issuances of SEC, BSP, etc.

In addition, the Bank in compliance with the SEC Memo Cir. No. 10, s2019, considers related party transaction/s, that are either individually, or in aggregate amounting to ten percent (10%) or higher of the Banks total assets based on its latest audited financial statement as Material Related Party Transactions, subject to the rules set on the policy. The policy also ensures that all Material RPTs are entered and conducted in fair and at arm's length terms.

(w) **Insider Trading Policy**. This policy, in general, prohibits covered persons, i.e., directors, officers, employees of BPI and BPI's subsidiaries, and other parties who are considered to have knowledge, made aware of or have access to inside information or material non-public information, from buying or selling BPI stocks for their own personal account to benefit themselves or others, especially during the blackout trading period. All directors and senior management (SVP and up), Treasurer, Corporate Secretary and Assistant Corporate Secretary, are also required to report to the Compliance Office within ten (10) days from the end of each quarter their trades of shares of BPI stock during such quarter. In compliance with the SEC, all directors and senior management file within three (3) business days the required SEC Form 23A/B. Officers and directors are expected to strictly comply with the Policy and to be knowledgeable of BPI's related policies, standards or internal procedures such as on information barriers, which impact on compliance with the Insider Trading Policy. A breach of the Insider Trading Policy may result in internal disciplinary action and any violation of related securities laws may also subject the Bank and/or the director to civil liability and possibly monetary penalties. All officers and employees undergo annual mandatory training on the Code of Conduct which includes training on the Insider Trading Policy.

(x) **ABC Policy, Anti-Money Laundering and Financial Crime Policies**. The Bank puts the highest premium on sound, responsible and effective corporate governance and does not tolerate bribery, corruption or improper payments of any kind. It advocates that Directors, officers and employees do not tolerate corruption or any form of bribery nor provide or accept improper inducements in the course of any business dealing. Aligned with the Bank's commitment to act fairly and with integrity in all business dealings and relationships, the Anti-Bribery and Anti-Corruption Policy complements the BPI's financial crime policies/programs such as the Money Laundering and Terrorist Financing Prevention Program and Whistleblower Policy. Guidance on the Bank's Anti-Corruption and Anti-Bribery program is supplemented by the Bank's Standards on Conflict of Interest under Request or Acceptance of Fees, Commissions, Gifts. Monitoring and compliance with the Code of Conduct and related policies are undertaken by departments or units of the Bank such as Human Resources and Corporate Governance, Compliance Division. All officers and employees undergo annual mandatory training on the Code of Conduct which includes training on the ABC Policy.

(y) **Data Privacy Policy**. BPI has a strong Data Privacy Policy in place, which complies with the requirements of the Data Privacy Act and the National Privacy Commission (NPC). BPI's Data Privacy Policy, posted on the company website, is supported by a comprehensive program utilizing a combination of policies, organizational structure, access controls and technologies designed for risk reduction. The Bank has a Data Privacy Office, headed by a Board-appointed Data Privacy Officer (DPO), a lead senior management officer. The key focus of the DPO is to oversee data privacy compliance and manage data protection risks consistent with Data Privacy Act rules and regulations, issuances by the NPC and other applicable laws. Management has also appointed Compliance Officers for Privacy for major business units of the Bank. All officers and employees undergo annual mandatory training on the Data Privacy Policy.

(z) **Employee Welfare, Health and Safety**. Having engaged and competent employees is BPI's goal for delivering best-in-class customer experiences and for achieving its vision of being recognized as the most trusted partner and financial advisor. The Bank strives to be an employer of choice among Philippine financial institutions. We have a wide array of training and development programs and activities designed along the Bank's business objectives, aimed at honing the skills and capabilities of our employees in carrying out their daily duties, as well as preparing them to assume higher responsibilities as the next leaders of the organization. The Bank has adopted a compensation policy that it believes is competitive with industry standards in the Philippines. Regular employees are provided with a comprehensive pay and benefits package, which is reviewed periodically and adjusted to retain current employees and attract new talent. Tied to this is a performance management system that calls for the alignment of individual key results, competencies, and development plans with the Bank's overall business targets and strategy. Officers and employees undergo regular performance evaluations based on their individual accomplishments vis-a-vis their responsibilities, as well as that of the business unit or the Bank. The Bank has an Executive Stock Purchase Plan (ESPP), a major initiative under its long-term incentive program, which aligns management's interest with shareholders and the long-term prospects of the Bank. Moreover, we strive to provide a safe, secure and conducive working environment for our employees, to continually safeguard their health and rights and provide equal opportunity for everyone to realize their fullest potential and make them agents of uplifting change for their communities. (Recommendation 2.9 of the SEC CG Code for PLCs).

V. Investor Relations, Continuous Disclosure and Transparency

(aa) **Investor Relations**. Through its Investor Relations Office, the Bank employs a program of proactive, uniform, appropriate and timely communication and reporting, in the spirit of full disclosure and in compliance with the Securities Regulation Code and Bangko Sentral, SEC and PSE rules, regulations and disclosure guidelines. The Bank provides company presentations in the Annual Stockholders Meeting and conducts analyst and media or press briefings apart from maintaining the relevant disclosures on its website. The Board has a policy of continuous disclosure and transparency and commits at all times to fully disclose all material information about the company for the benefit of the stockholder and other stakeholders. Such information includes earnings results, materially significant acquisition or disposal of assets, board changes, related party transactions which are not in the ordinary course of business, shareholding of directors and major changes to ownership/voting rights, group structures, intra-group relations, ownership data, and beneficial ownership. As a listed company, BPI files structured and unstructured disclosures through the, appropriate Exchange mechanisms for listed companies and submits mandated regulatory reports to the SEC. The Bank also maintains an official company website in accordance with the SEC-prescribed format and template to ensure a comprehensive, cost-efficient, transparent, timely manner of disseminating relevant information to the public. BPI also maintains official company sites on social media-based platforms.

(bb) **Annual Stockholders Meeting (ASM)**. The ASM is held annually and is organized in an easy to reach and cost-efficient venue and location in Metro Manila. The ASM allows shareholders to advise and adopt resolutions on important matters affecting the Bank, such as: ratification of all acts and resolutions of the Board of Directors and Management, approval of the annual report of the President and Bank’s statement of condition, amendments to the Articles of Incorporation or By-Laws, election of Board of Directors and external auditor as well as measures to amend the shareholders' equity. In 2020, however, the Annual Stockholders meeting was conducted virtually via https://asm.ayala.com/BPI2020. Shareholders intending to participate by remote communication were requested to notify the Bank by email to bpi-asm@bpi.com.ph on or before April 14, 2020.

Notice of the ASM. The Notice is sent to shareholders well before the meeting date to allow shareholders to review the meeting’s agenda and provide shareholders with sufficient information regarding issues to be decided at the meeting; the Definitive Information Statement, or SEC Form 20-IS is issued in accordance with BPI's Amended By-Laws and SRC 20. In 2020, the Notice, including the DIS, was sent out to stockholders of record by March 27, 2020, 27 days before the ASM.

Voting and Voting Results. All items in the agenda requiring stockholder approval need the affirmative vote of at least a majority of the issued and outstanding voting stock. Stockholders may vote in person or by proxy executed in writing by the stockholder or by a duly authorized attorney-in-fact. In its meeting held on February 26, 2020, the Executive Committee approved Management's recommendations for BPI to provide the Bank’s stockholders with the option to vote in absentia in the 2020 ASM. Hence, at the April 23, 2020 ASM, stockholders were able to effectively participate and had the option to cast votes in absentia through an online electronic system, as also provided for in the Revised Corporation Code. Voting is considered in a poll, by shares of stock, that is, one share entitles the holder to one vote. Cumulative voting as provided for in the Corporation Code may be applied in the election of the Board of Directors and directors are elected individually. The Rules of Conduct, voting and vote tabulation procedures are likewise explained during the meeting. The Office of the Corporate Secretary tabulates all votes received and the Bank’s external auditor validates the results. Voting results are disclosed on PSE EDGE and company’s website.

Shareholder Participation. BPI proactively encourages the full participation of all shareholders, including institutional shareholders, at the ASM each year. Shareholders are encouraged to ask questions at the ASM to ensure accountability and identification with the Board of Directors’ and Management’s strategy and goals for the business of BPI.

Minutes of the Annual Stockholders’ Meeting. The Minutes of the ASM includes all information pertinent to the meeting and is promptly disclosed on the company website within the period mandated by the SEC. Minutes of the 2020 ASM were likewise posted on the company website within five (5) calendar days from the date of the ASM.

(cc) **Annual and Quarterly Reports**. The Bank’s Annual, Quarterly, and Current Reports are its primary disclosure mechanisms used to impart knowledge about the Bank to all its stakeholders in an informative, structured, and cost-effective manner. The Annual and Quarterly accountability reports effectively detail its performance during the period under review and put that performance in context of the objectives of the Bank, its strategies and future direction. The Current Reports similarly provide timely updates on significant corporate actions undertaken by the Bank. The Annual, Quarterly, and Current Reports are regularly submitted to the SEC pursuant to Section 17 of the SRC, which also prescribes format and content. These Reports are also disclosed on the websites of the various Exchanges, as previously mentioned. These may also be viewed at www.bpi.com.ph.

VI. Sustainability, Stakeholder Engagement and ESG Reporting

(dd) **Sustainability and Stakeholder Engagement**. The Bank operates on a sustainability framework of shared values which emphasizes importance of all stakeholders and how their interests are integrated into the business of BPI. Stakeholder engagement takes on various forms and is carried out through a range of information, communication and consultative activities and disclosures. For employees: learning and development programs; long-term, merit-based performance incentive mechanisms such as executive stock purchase plans and regular subscription plans. For communities: extending credit and financial services to underserved and unbanked sectors; improving financial literacy initiatives and factoring ESG dimensions into its business and risk models and loan products and services. For clients: financial wellness, financial inclusion and sustainable development investments. For suppliers: a supplier policy based on the principle of transparency - equal opportunity for qualified suppliers and contractors while ensuring a properly managed supply chain from the point-of-view of sustainability and good governance. For creditors: counterparties are protected by fairness, accountability and transparency; policies and procedures are in place safeguarding creditor's rights as required by the BSP.

(ee) **Environmental, Social and Governance Reporting**. BPI considers the most appropriate way to report non-financial information to ensure that its ESG reporting provides internal and external stakeholders with the non-financial information needed to understand the context that the Bank operates in today. ESG reporting may be through a stand-alone sustainability report, an integrated annual report, and company website. It has adopted a globally-recognized standard/ framework, G4 Framework by the Global Reporting Initiative, for its ESG reporting.

VII. Corporate Governance Awards and Recognition

ACGS Golden Arrow Award. In 2020, BPI garnered the ASEAN Asset Class Award, ranking among the top listed firms across the six participating countries, namely Indonesia, Malaysia, Singapore, Thailand, Vietnam, and the Philippines. In 2020, BPI was also a recipient of the ICD's Golden Arrow Award as a Top Performing Company in the domestic assessment of the ACGS.

SEC FORM 17-A (Annual Report)

Upon the written request of the stockholders, the Corporation undertakes to furnish said stockholder with a copy of SEC Form 17-A free of charge. Any written request for a copy of SEC Form 17-A should be addressed to:

Office of the Corporate Secretary
Bank of the Philippine Islands
Ayala North Exchange Tower 1,
6796 Ayala Avenue cor. Salcedo St.,
Legaspi Village, Makati City

ANNEX “A-2”

2021 ANNUAL STOCKHOLDERS’ MEETING
OF
BANK OF THE PHILIPPINE ISLANDS
(THE “MEETING”)

REQUIREMENTS AND PROCEDURE FOR
ELECTRONIC VOTING IN ABSENTIA
AND
PARTICIPATION BY REMOTE COMMUNICATION

Electronic voting *in absentia* and participation by remote communication shall be allowed only through complete registration and successful validation in the Voting *in Absentia* & Shareholder (VIASH) System.

I. ELECTRONIC VOTING IN ABSENTIA

1. Stockholders as of March 5, 2021 (“Stockholders”) have the option of electronic voting *in absentia* on the matters in the Agenda, after complete registration and successful validation. in the VIASH System. Stockholders with e-mail addresses on record shall be sent an e-mail with a link to the VIASH System. To register in the VIASH System, Stockholders shall simply follow the instructions sent in the e-mail.

2. Otherwise, Stockholders may access the link http://www.ayalagroupshareholders.com/ to create an account and register in the VIASH System. Stockholders should complete the online registration form and submit for validation together with the requirements provided in Item 4 below.

3. All registered accounts shall be subject to the validation process set forth. The deadline for registration to vote *in absentia* is April 12, 2021.

4. The following are needed for registration:

    4.1 For individual Stockholders –

    - 4.1.1 A recent photo of the Stockholder, with the face fully visible (in JPG or PNG format). The file size should be no larger than 5MB;
    - 4.1.2 A scanned-copy of the Stockholder’s valid government-issued ID showing photo and personal details, preferably with residential address (in JPG or PDF format). The file size should be no larger than 5MB;
    - 4.1.3 A valid and active e-mail address;
    - 4.1.4 A valid and active contact number;

    4.2 For Stockholders with joint accounts –

    A scanned copy of an authorization letter signed by all Stockholders, identifying who among them is authorized to cast the vote for the account (in JPG or PDF format). The file size should be no larger than 5MB;

    4.3 For Stockholders under Broker accounts –

    - 4.3.1 A broker’s certification on the Stockholder’s number of shareholdings (in JPG or PDF format). The file size should be no larger than 5MB;
    - 4.3.2 A recent photo of the stockholder, with the face fully visible (in JPG or PNG format). The file size should be no larger than 5MB;

4.3.3 A scanned copy of the Stockholder's valid government-issued ID showing photo and personal details, preferably with residential address (in JPG or PDF format). The file size should be no larger than 5MB;
4.3.4 A valid and active e-mail address;
4.3.5 A valid and active contact number;

4.4 For corporate Stockholders –

4.4.1 A secretary's certificate attesting to the authority of the representative to vote for, and on behalf of the Corporation (in JPG or PDF format). The file size should be no larger than 5MB;
4.4.2 A recent photo of the Stockholder's representative, with the face fully visible (in JPG or PNG format). The file size should be no larger than 5MB;
4.4.3 A scanned copy of the valid government-issued ID of the Stockholder's representative showing photo and personal details, preferably with residential address (in JPG or PDF format). The file size should be no larger than 5MB;
4.4.4 A valid and active e-mail address of the Stockholder's representative;
4.4.5 A valid and active contact number of the Stockholder's representative.

Important Notes:

• Stockholders who are also stockholders as of record date of the other publicly listed corporations in the Ayala group need only to register one account in the VIASH System. The digital absentee ballot for each corporation shall be separately accessed from the Stockholder's Dashboard in the VIASH System and votes shall be cast per corporation.

• Considering the prevailing extraordinary circumstances in relation to COVID-19, the Company shall allow electronic signature for the required documents, as applicable. Notarization requirement shall also be dispensed with at this time. However, the Company reserves the right to request additional information, and original signed and notarized copies of these documents at a later time.

• Incomplete or inconsistent information may result in an unsuccessful registration. As a result, Stockholders will not be allowed access to vote electronically *in absentia*, but may still vote through the Chairman of the Meeting as proxy, by submitting a duly accomplished proxy form, on or before April 12, 2021.

5. The validation process in the VIASH System will be concluded by the Corporation no later than three (3) business days from the date of the Stockholder's complete registration. The Stockholder's dashboard in the VIASH System will indicate the status of registration.

   Once validated, the Stockholder will receive an e-mail confirmation on their successful registration. Registered Stockholders have until the end of the Meeting to cast their votes *in absentia*.

6. All agenda items indicated in the Notice of the Meeting will be set out in the digital absentee ballot in the VIASH System and the registered Stockholder may vote as follows:

   6.1 For items other than the Election of Directors, the registered Stockholder has the option to vote: For, Against, or Abstain. The vote is considered cast for all the registered Stockholder's shares.
   6.2 For the Election of Directors, the registered Stockholder may either: (1) vote for all nominees, (2) not vote for any of the nominees, or (3) vote for some nominees only, in such number of shares as preferred by the Stockholder, provided that the total number of votes cast shall not exceed the number of shares owned, multiplied by the number of directors to be elected.

   Once voting on the agenda items is finished, the registered Stockholder can proceed to submit the accomplished ballot by clicking the 'Submit' button.

   The VIASH System will prompt the Stockholder to confirm the submission of the ballot. The votes cast *in absentia* will have equal effect as votes cast by proxy.

After the ballot has been submitted, Stockholders may no longer change their votes except by submitting a duly accomplished proxy form within the set deadline.

7. The Office of the Corporate Secretary will tabulate all votes cast *in absentia* together with the votes cast by proxy, and a firm selected for this purpose will validate the results.

II. PARTICIPATION BY REMOTE COMMUNICATION

1. Stockholders as of March 5, 2021 ("Stockholders") are required to register in the VIASH System to participate in the Meeting on April 22, 2021 by remote communication. A Meeting livestreaming access button will be available in the Stockholder's dashboard in the VIASH System on the date set for the Meeting as indicated in the Corporation's Notice of the Meeting.

2. The procedure and requirements for registration in the VIASH System are found in the Electronic Voting *in Absentia* section in this Annex. The deadline for registration to participate by remote communication is on April 12, 2021.

3. In addition to their registration in the VIASH System, Stockholders are requested to notify the Company by e-mail to bpi-asm@bpi.com.ph by April 12, 2021 of their intention to participate in the Meeting by remote communication.

4. Only the Stockholders who have notified the Company of their intention to participate in the Meeting by remote communication, together with the Stockholders who voted *in absentia* and by proxy, will be included in the determination of quorum at the Meeting.

5. Stockholders participating by remote communication may vote anytime until the end of the Meeting using the digital ballot in the VIASH System.

6. Stockholders may send their questions and/or remarks prior to or during the Meeting by e-mail to bpi-asm@bpi.com.ph.

7. A link to the recorded webcast of the Meeting will be posted on the Company's website after the Meeting. Stockholders shall have two weeks from posting to raise to the Company any issues, clarifications and concerns on the Meeting conducted by e-mail to bpi-asm@bpi.com.ph.

For any clarifications, please contact our Stock Transfer Office through bpi-asm@bpi.com.ph.

COVER SHEET

PW-121
S.E.C. Registration Number

BANK OF THE PHILIPPINE ISLANDS

(Company's Full Name)

AYALA NORTH EXCHANGE, TOWER 1,
6796 AYALA AVENUE COR. SALCEDO
STREET, LEGASPI VILLAGE
MAKATI CITY

(Business Address: No. Street City/Town/Province)

ATTY. ANGELA PILAR B. MARAMAG
Contact Person

8246-5902
Company Telephone Number

12 31
Month Day
Fiscal Year

Certificate of Independent Director
FORM TYPE

04 22 21
Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

REPUBLIC OF THE PHILIPPINES)
) S.S.

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **IGNACIO R. BUNYE**, Filipino, of legal age, and a resident of 101 Dr. Alfredo M. Bunye St. Alabang, City of Muntinlupa, Metro Manila, after having been duly sworn in accordance with law do hereby declare that:

1. I am a nominee for independent director of the BANK OF THE PHILIPPINE ISLANDS and have been its independent director since 14 April 2016;

2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

Company/Organization	Position/Relationship	Period of Service
BPI Capital Corporation	Independent Director	2019 – Present
BPI Direct BanKo, Inc., A Savings Bank	Independent Director	2018 – Present
BPI Asset Management and Trust Corporation	Independent Director	2017 – Present
TDF Holdings, Inc.	Chairman of the Board and President	2016 - Present
	Chairman of the Board	1997 – Present
Philippine Air Force	Reserve Lieutenant Colonel (Appointive)	1998 – Present

3. I possess all the qualifications and none of the disqualifications to serve as an independent director of the BANK OF THE PHILIPPINE ISLANDS, as provided in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations, and other Securities and Exchange Commission (SEC) issuances;

4. I am not related to any director/officer/substantial shareholder of the covered company and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code;

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding;

6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance, and other SEC issuances;

7. I shall inform the Corporate Secretary of the BANK OF THE PHILIPPINE ISLANDS of any changes in the abovementioned information within five (5) days from its occurrence.

[Signature page follows]

Done, this MAR 1 1 2021 at CITY OF MAKATI.

IGNACIO R. BUNYE
Affiant

SUBSCRIBED AND SWORN to before me this MAR 1 1 2021 at CITY OF MAKATI; affiant IGNACIO R. BUNYE personally appeared before me and exhibited to me his Passport No. issued at , Philippines on valid

Doc. No. 171 ;
Page No. 112 ;
Book No. VIII ;
Series of 2021.

ATTY. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Extended Until June 30, 2021
Per B.M No 3795
IBP No. 05729-Lifetime Member
MCLE Compliance No. VI-0024312
Appointment No M-183-(2019-2020)
PTR No. 8531011 Jan. 4, 2021
Makati City Roll No. 40091
101 Urban Ave Campos Rueda Bldg.
Brgy. Pio del Pilar, Makati City

COVER SHEET

P	W	-	1	2	1

S.E.C. Registration Number

BANK OF THE PHILIPPINE ISLANDS

(Company's Full Name)

AYALA NORTH EXCHANGE, TOWER 1,
6796 AYALA AVENUE COR. SALCEDO
STREET, LEGASPI VILLAGE
MAKATI CITY

(Business Address: No. Street City/Town/Province)

ATTY. ANGELA PILAR B. MARAMAG

Contact Person

8246-5902

Company Telephone Number

12 31
Month Day
Fiscal Year

Certificate of Independent Director

FORM TYPE

04 22 21
Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

REPUBLIC OF THE PHILIPPINES)
)SS

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **OCTAVIO V. ESPIRITU**, Filipino, of legal age and a resident of 203 Dingalan Street, Ayala Alabang Village, Muntinlupa City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of Bank of the Philippine Islands and have been its independent director since 07 April 2000;

2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

Company/Organization	Position/Relationship	Period of Service
The Country Club, Inc.	Director	2015 – Present
Philippine Dealing System Holdings Corp. and Subsidiaries	Director	2013 – Present
GANESP Ventures Inc.	Chairman	2011 – Present
Phil. Stratbase Consultancy, Inc.	Director	2004 – Present
International Container Terminal Services, Inc.	Director	2002 – Present
Pueblo de Oro Golf & Country Club	Director	1998 – Present
Carlos P. Romulo Foundation	Board of Trustee	1996 - Present
MAROV Holding Co., Inc.	Chairman and President	1988 – Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of BANK OF THE PHILIPPINE ISLANDS, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances;

4. I am not related to any director/officer/substantial shareholder of the covered company and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code;

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding, except as specified below:

   Case filed by Luis Villafuerte and various petitioners against the Philippine Dealing System Holdings Corp. (PDS Holdings) and its subsidiaries with the Philippine Supreme Court on August 22, 2016 (as disclosed in the PDS 2016 Audited Financial Statements, page 98), which is still pending as of the date hereof. I am an independent director of PDS Holdings and its subsidiaries.

6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances;

7. I shall inform the Corporate Secretary of Bank of the Philippine Islands of any changes in the abovementioned information within five days from its occurrence.

Done, this ________ day of MAR 1 1 2021, at CITY OF MAKATI.

OCTAVIO V. ESPIRITU
Affiant

SUBSCRIBED AND SWORN to before me this MAR 1 1 2021 at CITY OF MAKATI ; Affiant, OCTAVIO V. ESPIRITU, who is personally known to me and to me known to be the same person who executed the foregoing instrument and who exhibited to me his Passport with No. issued at on valid until .

Doc. No. 129 ;
Page No. 27 ;
Book No. VIII ;
Series of 2021.

ATTY. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Extended Until June 30, 2021
Per B.M. No. 3795
IBP No. 05729-Lifetime Member
MCLE Compliance No. VI-0024312
Appointment No. M-183-(2019-2020)
PTR No. 8531011 Jan. 4, 2021
Makati City Roll No. 40091
101 Urban Ave. Campos Rueda Bldg.
Brgy. Pio del Pilar, Makati City

COVER SHEET

P	W	-	1	2	1

S.E.C. Registration Number

BANK OF THE PHILIPPINE ISLANDS

(Company's Full Name)

AYALA NORTH EXCHANGE, TOWER 1,
6796 AYALA AVENUE COR. SALCEDO
STREET, LEGASPI VILLAGE
MAKATI CITY

(Business Address: No. Street City/Town/Province)

Contact Person	Company Telephone Number
ATTY. ANGELA PILAR B. MARAMAG	8246-5902

Fiscal Year		FORM TYPE	Annual Meeting	
Month	Day		Month	Day
12	31	Certificate of Independent Director	04	22 21

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

REPUBLIC OF THE PHILIPPINES)
)S.S

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **ANTONIO JOSE U. PERIQUET**, Filipino, of legal age and a resident of 27 Banaba Road, Forbes Park, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of Bank of the Philippine Islands and have been its independent director since 19 April 2012;

2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

Company/Organization	Position/Relationship	Period of Service
Semi-Calaca Power Corporation	Independent Director	2020 - Present
Southwest Luzon Power Generation Corporation	Independent Director	2020 - Present
Semirara Mining and Power Corporation	Independent Director	2019-Present
BPI Asset Management & Trust Corporation	Chairman	2017 - Present
Albizia ASEAN Tenggara Fund	Independent Director	2015 - Present
Max's Group of Companies	Independent Director	2014 - Present
Campden Hill Advisors, Inc. (formerly Regis Financial Advisers, Inc.)	Chairman	2014 - Present
ABS-CBN Corporation	Independent Director	2013 - Present
BPI Family Savings Bank, Inc.	Independent Director	2012 - Present
Campden Hill Group, Inc.	Chairman	2011 - Present
Lyceum University of the Philippines	Trustee	2010 - Present
Ayala Corporation	Independent Director	2010 - Present
DMCI Holdings, Inc.	Independent Director	2010 - Present
Philippine Seven Corporation	Independent Director	2010 - Present
BPI Capital Corporation	Independent Director	2010 - Present
The Straits Wine Co. Inc	Director	2009 - Present
Pacific Main Properties and Holdings, Inc.	Chairman	1998 - Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of BANK OF THE PHILIPPINE ISLANDS, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances;

4. I am not related to any director/officer/substantial shareholder of the covered company and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code;

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding;

6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances;

7. I shall inform the Corporate Secretary of Bank of the Philippine Islands of any changes in the abovementioned information within five days from its occurrence.

Done, this ________ day of MAR 1 1 2021, at CITY OF MAKATI.

ANTONIO JOSE U. PERIQUET
Affiant

SUBSCRIBED AND SWORN to before me this MAR 1 1 2021 at CITY OF MAKATI ; Affiant, ANTONIO JOSE U. PERIQUET, who is personally known to me and to me known to be the same person who executed the foregoing instrument and who exhibited to me his Passport with No. issued at Philippines on valid until .

Doc. No. 172 ;
Page No. 28 ;
Book No. VIII ;
Series of 2021.

ATTY. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Extended Until June 30, 2021
Per B.M. No. 3795
IBP No. 05729-Lifetime Member
MCLE Compliance No. VI-0024312
Appointment No. M-183-(2019-2020)
PTR No. 8531011 Jan. 4, 2021
Makati City Roll No. 40091
101 Urban Ave. Campos Rueda Bldg.
Brgy. Pio del Pilar, Makati City

COVER SHEET

PW-121

S.E.C. Registration Number

BANK OF THE PHILIPPINE ISLANDS

(Company's Full Name)

AYALA NORTH EXCHANGE, TOWER 1,
6796 AYALA AVENUE COR. SALCEDO
STREET, LEGASPI VILLAGE
MAKATI CITY

(Business Address: No. Street City/Town/Province)

ATTY. ANGELA PILAR B. MARAMAG

Contact Person

8246-5902

Company Telephone Number

12 31

Month Day

Fiscal Year

Certificate of Independent Director

FORM TYPE

04 22 21

Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

REPUBLIC OF THE PHILIPPINES)
)S.S.

CERTIFICATION OF INDEPENDENT DIRECTOR

I, CESAR V. PURISIMA, of legal age, Filipino citizen and with residence address at 1567 Cypress Street, Dasmariñas Village, Makati City, after being sworn in accordance with law, do hereby certify:

1. I am a nominee for independent director of the BANK OF THE PHILIPPINE ISLANDS and have been its independent director since 20 January 2021;

2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

Company/Organization	Position/Relationship	Period of Service
AIA Group Limited	Non-Executive Director	2017 to Present
Ayala Land, Inc.	Independent Director	2018 to Present
Universal Robina Corporation	Independent Director	2018 to Present
Jollibee Foods Corporation	Independent Director	2020 to Present
Ikhlas Capital Singapore Pte. Ltd	Founding Partner / Director	2019 to Present
Sumitomo Mitsui Banking Corporation	Member Of The Global Advisory Council	2018 to Present
ABS-CBN Corporation	Member Of The Board Of Advisors	2020 to Present
Singapore Management University (Philippines)	Member Of International Advisory Council	2017 to Present
World Wildlife Fund – Philippines	Board Trustee	2019 to Present
De La Salle University	Board Trustee	2017 to Present
International School Of Manila	Board Trustee	2017 to Present
Milken Institute	Asia Fellow	2016 to Present
ASIAN Institute of Management	Executive-In-Residence	2016 to Present
Unistar Credit & Finance Corporation	Independent Non-Executive Director	2019 to Present

3. I possess all the qualifications and none of the disqualifications to serve as an independent director of BANK OF THE PHILIPPINE ISLANDS, as provided in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations, and other Securities and Exchange Commission (SEC) issuances;

4. I am not related to any director/officer/substantial shareholder of the covered company and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code;

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding;

6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance, and other SEC issuances;

7. I shall inform the Corporate Secretary of Bank of the Philippine Islands of any changes in the abovementioned information within five (5) days from its occurrence.

Done, this MAR 1 1 2021 at CITY OF MAKATI.

CESAR V. PURISIMA
Affiant

SUBSCRIBED AND SWORN to before me this MAR 1 1 2021 at CITY OF MAKATI; affiant MR. CESAR V. PURISIMA personally appeared before me and exhibited to me his Passport No. issued at on valid until .

Doc. No. 128;
Page No. 27;
Book No. VIII;
Series of 2021.

ATTY. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Extended Until June 30, 2021
Per B.M. No. 3795
IBP No. 05729-Lifetime Member
MCLE Compliance No. VI-0024312
Appointment No. M-183-(2019-2020)
PTR No. 8531011 Jan. 4, 2021
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101 Urban Ave. Campos Rueda Bldg.
Brgy. Pio del Pilar, Makati City

COVER SHEET

PW-121
S.E.C. Registration Number

BANK OF THE PHILIPPINE ISLANDS

(Company's Full Name)

AYALA NORTH EXCHANGE, TOWER 1,
6796 AYALA AVENUE COR. SALCEDO
STREET, LEGASPI VILLAGE
MAKATI CITY

(Business Address: No. Street City/Town/Province)

ATTY. ANGELA PILAR B. MARAMAG
Contact Person

8246-5902
Company Telephone Number

12 31
Month Day
Fiscal Year

Certificate of Independent Director
FORM TYPE

04 22 21
Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

REPUBLIC OF THE PHILIPPINES)
)S.S.

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **MA. DOLORES B. YUVIENCO**, Filipino, of legal age and a resident of 50 Domingo Poblete St., BF Executive Village, Las Piñas City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of Bank of the Philippine Islands and have been its independent director since 14 April 2016;

2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations);

Company/ Organization	Position/Relationship	Period of Service
BPI Asset Management and Trust Corporation	Independent Director	2019 - Present
First Consolidated Bank (Bohol)	Independent Director	2018 - Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Bank Of The Philippine Islands, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances;
4. I am related to the following director/officer/substantial shareholder of the covered company and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code (i.e. other than spouse, parent, child, brother, sister and the spouse of such child, brother or sister):

Name of Director/Officer/ Substantial Stockholder	Company	Nature of Relationship
Diosdado B. Barin (Officer)	Bank of the Philippine Islands	Nephew

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding;

6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances;

7. I shall inform the Corporate Secretary of Bank of the Philippine Islands of any changes in the abovementioned information within five days from its occurrence.

[Signature page follows]

Done, this ________ day of MAR 1 1 2021, at CITY OF MAKATI.

Ma. Dolores B Yuvienco

MA. DOLORES B. YUVIENCO
Affiant

SUBSCRIBED AND SWORN to before me this MAR 1 1 2021 at CITY OF MAKATI; Affiant, MS. MA. DOLORES B. YUVIENCO, who is personally known to me and to me known to be the same person who executed the foregoing instrument and who exhibited to me her Passport with No. issued at on and valid until .

Doc. No. 170;
Page No. 27;
Book No. VIII;
Series of 2021.

ATTY. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Extended Until June 30, 2021
Per B.M. No. 3795
IBP No. 05729-Lifetime Member
MCLE Compliance No. VI-0024312
Appointment No. M-183-(2019-2020)
PTR No. 8531011 Jan. 4, 2021
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101 Urban Ave. Campos Rueda Bldg.
Brgy. Pio del Pilar, Makati City

COVER SHEET

PW-121

S.E.C. Registration Number

BANK OF THE PHILIPPINE ISLANDS

(Company's Full Name)

AYALA NORTH EXCHANGE, TOWER 1,
6796 AYALA AVENUE COR. SALCEDO
STREET, LEGASPI VILLAGE
MAKATI CITY

(Business Address: No. Street City/Town/Province)

ATTY. ANGELA PILAR B. MARAMAG

Contact Person

8246-5902

Company Telephone Number

12 31

Month Day

Fiscal Year

Certificate of Independent Director

FORM TYPE

04 22 21

Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

REPUBLIC OF THE PHILIPPINES)
) S.S.

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **ELI M. REMOLONA, JR.**, Filipino, of legal age, and a resident of 33-10-3 Sri Penaga Condominium, Jalan Medang Serai, Kuala Lumpur, Malaysia, after having been duly sworn in accordance with law do hereby declare that:

1. I am a nominee for independent director of the BANK OF THE PHILIPPINE ISLANDS and have been its independent director since 25 April 2019;

2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

Company/Organization	Position/Relationship	Period of Service
BPI/MS Insurance Corporation	Independent Director	2020 - Present
Asia School of Business	Professor of Finance and Director of Central Banking	2019 – Present
Hong Kong Academy of Finance	Member, HKIMR Council of Advisers for Applied Research	2019 - Present

3. I possess all the qualifications and none of the disqualifications to serve as an independent director of the BANK OF THE PHILIPPINE ISLANDS, as provided in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations, and other Securities and Exchange Commission (SEC) issuances;

4. I am not related to any director/officer/substantial shareholder of the covered company and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code;

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding;

6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance, and other SEC issuances;

7. I shall inform the Corporate Secretary of the BANK OF THE PHILIPPINE ISLANDS of any changes in the abovementioned information within five (5) days from its occurrence.

[Signature page follows]

Done, this MAR 1 7 2021 at CITY OF MAKATI

ELI M. REMOLONA, JR.
Affiant

SUBSCRIBED AND SWORN to before me this MAR 1 7 2021 at MAKATI CITY; affiant ELI M. REMOLONA, JR. personally appeared before me and exhibited to me his Passport with No. issued at on valid until

Doc. No. 396;
Page No. 71;
Book No. VIII;
Series of 2021.

ATTY. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Extended Until June 30, 2021
Per B.M. No. 3795
IBP No. 05729-Lifetime Member
MCLE Compliance No. VI-0024312
Appointment No. M-183-(2019-2020)
PTR No. 8531011 Jan. 4, 2021
Makati City Roll No. 40091
101 Urban Ave. Campos Rueda Bldg.
Brgy. Pio del Pilar, Makati City

ANNEX "B"

BPI

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Bank of the Philippine Islands (the "Bank") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2020, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, 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 financial statements, management is responsible for assessing the Bank's ability 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 Bank or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

Isla Lipana & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Jaime Augusto Zobel de Ayala
Chairman of the Board

Cezar P. Consing
President and Chief Executive Officer

Maria Theresa Marcial Javier
Executive Vice President and
Chief Finance Officer

SUBSCRIBED AND SWORN to before me at Makati City, Metro Manila this MAR 1 9 2021, affiants exhibited to me their Passport with the following details:

Name	Passport No.	Date/Place of Issue	Valid Until
Jaime Augusto Zobel de Ayala			
Cezar P. Consing			
Maria Theresa Marcial Javier			

Doc. No. 464;
Page No. 94;
Book No. VIII;
Series of 2021.

ATTY. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Extended Until June 30, 2021
Per B.M. No. 3795
IBP No. 05729-Lifetime Member
MCLE Compliance No. VI-0024312
Appointment No M-183-(2019-2020)
PTR No 8531011 Jan. 4, 2021
Makati City Roll No. 40091
101 Urban Ave. Campos Rueda Bldg.
Brgy. Pio del Pilar, Makati City

www.pwc.com/ph

Bank of the Philippine Islands

Financial Statements
As at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020

pwc

Isla Lipana & Co.

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, 2020 and 2019, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2020 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, 2020 and 2019;
- the consolidated and parent statements of income for each of the three years in the period ended December 31, 2020;
- the consolidated and parent statements of total comprehensive income for each of the three years in the period ended December 31, 2020;
- the consolidated and parent statements of changes in capital funds for each of the three years in the period ended December 31, 2020;
- the consolidated and parent statements of cash flows for each of the three years in the period ended December 31, 2020; 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.

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.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment losses on loans and advances	
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, 2020, the total allowance for impairment for loans and advances amounted to PHP46,758 million for the BPI Group and PHP34,796 million for the Parent Bank while provision for loan losses recognized in profit or loss for the year then ended amounted to PHP26,994 million for the BPI Group and PHP20,232 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. 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. 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.	We assessed the design and tested the operating effectiveness of key controls over loan loss provisioning. These key controls included: • governance over the development, validation and approval of the BPI Group's ECL models to assess compliance with Philippine Financial Reporting Standard (PFRS) 9, *Financial instruments*; 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. Our work over the impairment of loans and advances included: • 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;

Key Audit Matter	How our audit addressed the Key Audit Matter
(cont'd.) Key elements in the impairment of loans and advances include: • 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). 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.	• 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.

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.

Isla Lipana & Co.

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.

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 31 and BIR Revenue Regulations No. 15-2010 in Note 32 to the financial statements is presented for 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 Lim

John-John Patrick V. Lim
Partner
CPA Cert. No. 83389
P.T.R. No. 0007706, issued on January 5, 2021, 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
TIN 112-071-386
BIR A.N. 08-000745-017-2018, issued on December 10, 2018; effective until December 9, 2021
BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
February 24, 2021

Isla Lipana & Co.

Statements Required by Rule 68
Securities Regulation Code (SRC)

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of the Bank of the Philippine Islands and Subsidiaries (the "BPI Group") as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, and have issued our report thereon dated February 24, 2021. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the BPI Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the BPI Group's consolidated financial statements as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 and no material exceptions were noted.

Isla Lipana & Co.

John-John Patrick V. Lim
Partner
CPA Cert. No. 83389
P.T.R. No. 0007706, issued on January 5, 2021, 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
TIN 112-071-386
BIR A.N. 08-000745-017-2018, issued on December 10, 2018; effective until December 9, 2021
BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
February 24, 2021

Isla Lipana & Co.

Statements Required by Rule 68
Securities Regulation Code (SRC)

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

We have audited the 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") as at and for the year ended December 31, 2020, on which we have rendered the attached report dated February 24, 2021. The supplementary information shown in the Reconciliation of the Parent Bank's Retained Earnings Available for Dividend Declaration, Map of the Conglomerate or Group of Companies within which the Bank of the Philippine Islands belongs effective as at December 31, 2020, as additional components required by Part I, Section 5 of Rule 68 of the Securities Regulation Code, and Schedules A, B, C, D, E, F and G, as required by Part II, Section 6 of Rule 68 of the Securities Regulation Code, is presented for purposes of filing with the Securities and Exchange Commission and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the supplementary information has been prepared in accordance with Rule 68 of the Securities Regulation Code.

Isla Lipana & Co.

John-John Patrick V. Lim
Partner
CPA Cert. No. 83389
P.T.R. No. 0007706, issued on January 5, 2021, 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
TIN 112-071-386
BIR A.N. 08-000745-017-2018, issued on December 10, 2018; effective until December 9, 2021
BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
February 24, 2021

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
December 31, 2020 and 2019
(In Millions of Pesos)

	Notes	Consolidated 2020	Consolidated 2019	Parent 2020	Parent 2019
ASSETS					
CASH AND OTHER CASH ITEMS	4	**37,176**	47,256	**35,912**	45,982
DUE FROM BANGKO SENTRAL NG PILIPINAS	4	**223,989**	207,845	**197,974**	181,815
DUE FROM OTHER BANKS	4	**40,155**	22,356	**36,605**	18,356
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	4,5	**30,251**	22,570	**26,622**	18,364
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	6,7	**37,210**	24,105	**33,865**	17,688
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	8	**130,186**	53,905	**120,300**	48,320
INVESTMENT SECURITIES AT AMORTIZED COST, net	9	**244,653**	275,105	**216,810**	252,006
LOANS AND ADVANCES, net	10	**1,407,413**	1,475,336	**1,175,071**	1,231,776
ASSETS HELD FOR SALE, net		**2,971**	3,155	**357**	342
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	11	**18,832**	23,748	**16,131**	16,595
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net	12	**7,510**	6,746	**11,039**	10,031
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	2	**18,726**	17,790	**-**	-
DEFERRED INCOME TAX ASSETS, net	13	**17,525**	9,706	**12,838**	6,653
OTHER ASSETS, net	14	**16,846**	15,407	**14,412**	9,910
Total assets		**2,233,443**	2,205,030	**1,897,936**	1,857,838

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
December 31, 2020 and 2019
(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2020	2019	**2020**	2019
LIABILITIES AND CAPITAL FUNDS					
DEPOSIT LIABILITIES	15	**1,716,177**	1,695,343	**1,470,210**	1,456,458
DERIVATIVE FINANCIAL LIABILITIES	7	**5,657**	2,877	**5,657**	2,877
BILLS PAYABLE AND OTHER BORROWED FUNDS	16	**151,947**	150,837	**140,348**	126,529
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		**1,491**	2,946	**1,491**	2,946
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		**7,108**	8,299	**5,447**	6,421
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		**8,902**	9,865	**6,510**	7,418
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	2	**14,347**	14,061	**-**	-
DEFERRED CREDITS AND OTHER LIABILITIES	17	**45,857**	47,768	**37,103**	38,939
Total liabilities		**1,951,486**	1,931,996	**1,666,766**	1,641,588
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI	18				
Share capital		**45,045**	44,999	**45,045**	44,999
Share premium		**74,764**	74,449	**74,764**	74,449
Reserves		**416**	5,108	**196**	4,892
Accumulated other comprehensive loss		**(5,899)**	(2,439)	**(4,288)**	(2,316)
Surplus		**165,509**	147,460	**115,453**	94,226
		279,835	269,577	**231,170**	216,250
NON-CONTROLLING INTERESTS		**2,122**	3,457	**-**	-
Total capital funds		**281,957**	273,034	**231,170**	216,250
Total liabilities and capital funds		**2,233,443**	2,205,030	**1,897,936**	1,857,838

(The notes on pages 1 to 95 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, 2020
(In Millions of Pesos)

	Notes	Consolidated			Parent		
		2020	2019 (As restated)	2018 (As restated)	**2020**	2019	2018
INTEREST INCOME							
On loans and advances		**82,312**	86,056	68,683	**63,599**	67,895	51,901
On investment securities		**12,052**	12,709	9,615	**10,786**	11,776	8,942
On deposits with BSP and other banks		**1,944**	1,722	1,173	**1,343**	808	548
		96,308	100,487	79,471	**75,728**	80,479	61,391
INTEREST EXPENSE							
On deposits	15	**18,986**	28,874	21,255	**12,777**	21,476	15,645
On bills payable and other borrowed funds	16	**5,058**	6,038	2,599	**4,595**	6,031	2,588
		24,044	34,912	23,854	**17,372**	27,507	18,233
NET INTEREST INCOME		**72,264**	65,575	55,617	**58,356**	52,972	43,158
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	5,9, 10,12,14	**28,000**	5,562	4,719	**21,394**	4,666	4,279
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES		**44,264**	60,013	50,898	**36,962**	48,306	38,879
OTHER INCOME							
Fees and commissions		**8,899**	9,068	7,828	**7,763**	8,502	7,219
Income from foreign exchange trading		**2,155**	2,111	2,128	**2,022**	1,930	1,831
Securities trading gain		**3,310**	3,882	719	**2,657**	3,574	264
Income attributable to insurance operations	2	**1,506**	1,223	1,223	**-**	-	-
Net gains (losses) on disposals of investment securities at amortized cost	9	**4,647**	128	-	**4,078**	104	(6)
Other operating income	19	**9,142**	10,275	9,105	**13,459**	10,487	5,919
		29,659	26,687	21,003	**29,979**	24,597	15,227
OTHER EXPENSES							
Compensation and fringe benefits	21	**18,005**	17,369	15,201	**13,870**	13,479	11,834
Occupancy and equipment-related expenses	11,20	**14,606**	14,736	11,837	**12,544**	12,943	10,570
Other operating expenses	21	**15,543**	16,239	15,047	**11,788**	12,058	11,257
		48,154	48,344	42,085	**38,202**	38,480	33,661
PROFIT BEFORE INCOME TAX		**25,769**	38,356	29,816	**28,739**	34,423	20,445
INCOME TAX EXPENSE	22						
Current		**10,751**	9,975	7,300	**9,272**	8,788	5,793
Deferred	13	**(6,845)**	(620)	(687)	**(5,144)**	(583)	(776)
		3,906	9,355	6,613	**4,128**	8,205	5,017
NET INCOME FROM CONTINUING OPERATIONS		**21,863**	29,001	23,203	**24,611**	26,218	15,428
NET (LOSS) INCOME FROM DISCONTINUED OPERATIONS	12	**(211)**	82	126	**-**	-	-
NET INCOME AFTER TAX		**21,652**	29,083	23,329	**24,611**	26,218	15,428

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2020
(In Millions of Pesos, Except Per Share Amounts)

	Notes	Consolidated			Parent		
		2020	2019 (As restated)	2018 (As restated)	**2020**	2019	2018
(forwarded)							
Basic and diluted earnings per share attributable to the equity holders of BPI during the year from:	18						
Continuing operations		**4.79**	6.38	5.33	**5.45**	5.82	3.57
Discontinued operations		**(0.05)**	0.01	0.01	**-**	-	-
Income (loss) attributable to equity holders of BPI arising from:	18						
Continuing operations		**21,620**	28,761	23,014	**24,611**	26,218	15,428
Discontinued operations		**(211)**	42	64	**-**	-	-
		21,409	28,803	23,078	**24,611**	26,218	15,428
Income attributable to the non-controlling interests arising from:							
Continuing operations		**243**	240	189	**-**	-	-
Discontinued operations		**-**	40	62	**-**	-	-
		243	280	251	**-**	-	-
Income attributable to							
Equity holders of BPI		**21,409**	28,803	23,078	**24,611**	26,218	15,428
Non-controlling interests		**243**	280	251	**-**	-	-
		21,652	29,083	23,329	**24,611**	26,218	15,428

(The notes on pages 1 to 95 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, 2020
(In Millions of Pesos)

	Note	Consolidated			Parent		
		2020	2019 (As restated)	2018 (As restated)	2020	2019	2018
NET INCOME FROM CONTINUING OPERATIONS		**21,863**	29,001	23,203	**24,611**	26,218	15,428
OTHER COMPREHENSIVE (LOSS) INCOME	18						
Items that may be subsequently reclassified to profit or loss							
Share in other comprehensive income (loss) of associates		**640**	1,286	(1,281)	**-**	-	-
Net change in fair value reserve on investments in debt instruments measured at FVOCI, net of tax effect		**428**	262	(771)	**428**	249	(461)
Fair value reserve on investments of insurance subsidiaries, net of tax effect		**195**	545	(400)	**-**	-	-
Currency translation differences and others		**(238)**	(202)	(26)	**(167)**	(124)	-
Items that will not be reclassified to profit or loss							
Remeasurements of defined benefit obligation		**(3,383)**	(1,402)	656	**(2,798)**	(1,141)	431
Share in other comprehensive (loss) income of associates		**(1,242)**	(32)	596	**-**	-	-
Net change in fair value reserve on investments in equity instruments measured at FVOCI, net of tax effect		**215**	(313)	(19)	**565**	(379)	320
Total other comprehensive (loss) income, net of tax effect from continuing operations		**(3,385)**	144	(1,245)	**(1,972)**	(1,395)	290
Total comprehensive income for the year from continuing operations		**18,478**	29,145	21,958	**22,639**	24,823	15,718
NET (LOSS) INCOME FROM DISCONTINUED OPERATIONS		**(211)**	82	126	**-**	-	-
Total other comprehensive loss, net of tax effect from discontinued operations		**(3)**	(16)	(44)	**-**	-	-
Total comprehensive (loss) income, for the year from discontinued operations		**(214)**	66	82	**-**	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**18,264**	29,211	22,040	**22,639**	24,823	15,718
Total comprehensive income (loss) attributable to equity holders of BPI arising from:							
Continuing operations		**18,163**	28,735	21,858	**22,639**	24,823	15,718
Discontinued operations		**(214)**	34	20	**-**	-	-
		17,949	28,769	21,878	**22,639**	24,823	15,718
Total comprehensive income attributable to the non-controlling interest arising from:							
Continuing operations		**315**	410	100	**-**	-	-
Discontinued operations		**-**	32	62	**-**	-	-
		315	442	162	**-**	-	-
Total comprehensive income attributable to:							
Equity holders of BPI		**17,949**	28,769	21,878	**22,639**	24,823	15,718
Non-controlling interests		**315**	442	162	**-**	-	-
		18,264	29,211	22,040	**22,639**	24,823	15,718

(The notes on pages 1 to 95 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, 2020
(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, 2018	**39,336**	**29,771**	**254**	**116,353**	**(977)**	**184,737**	**2,855**	**187,592**
Comprehensive income								
Net income for the year	-	-	-	23,078	-	23,078	251	23,329
Other comprehensive loss for the year	-	-	-	-	(1,200)	(1,200)	(89)	(1,289)
Total comprehensive income (loss) for the year	-	-	-	**23,078**	**(1,200)**	**21,878**	**162**	**22,040**
Transactions with owners								
Proceeds from stock rights offering	5,587	44,120	-	-	-	49,707	-	49,707
Exercise of stock option plans	38	290	(25)	-	-	303	-	303
Cash dividends	-	-	-	(8,104)	-	(8,104)	-	(8,104)
Total transactions with owners	**5,625**	**44,410**	**(25)**	**(8,104)**	-	**41,906**	-	**41,906**
Transfer from surplus to reserves	-	-	3,867	(3,867)	-	-	-	-
Other movements	-	-	-	(1)	1	-	-	-
	-	-	**3,867**	**(3,868)**	**1**	-	-	-
Balance, December 31, 2018	**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 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 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**

(The notes on pages 1 to 95 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, 2020
(In Millions of Pesos)

	Parent (Note 18)					
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2018	**39,336**	**29,771**	**142**	**73,501**	**(1,211)**	**141,539**
Comprehensive income						
Net income for the year	-	-	-	15,428	-	15,428
Other comprehensive income for the year	-	-	-	-	290	290
Total comprehensive income for the year	-	-	-	**15,428**	**290**	**15,718**
Transactions with owners						
Proceeds from stock rights offering	5,587	44,120	-	-	-	49,707
Exercise of stock option plans	38	290	(32)	-	-	296
Cash dividends	-	-	-	(8,104)	-	(8,104)
Total transactions with owners	**5,625**	**44,410**	**(32)**	**(8,104)**	-	**41,899**
Transfer from surplus to reserves	-	-	3,867	(3,867)	-	-
Balance, December 31, 2018	**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 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 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 surplus to reserves	-	-	-	-	-	-
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**

(The notes on pages 1 to 95 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, 2020
(In Millions of Pesos)

	Notes	Consolidated			Parent		
		2020	2019	2018	**2020**	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit (loss) before income tax from:							
Continuing operations		**25,769**	38,356	29,816	**28,739**	34,423	20,445
Discontinued operations	12	**(246)**	79	183	**-**	-	-
		25,523	38,435	29,999	**28,739**	34,423	20,445
Adjustments for:							
Impairment losses	5,9,10,12,14	**28,000**	5,822	4,923	**21,394**	4,666	4,271
Depreciation and amortization	11,14	**6,023**	7,132	4,797	**4,860**	4,767	2,916
Share in net income of associates	12	**(487)**	(372)	(700)	**-**	-	-
Dividend and other income	19	**(57)**	(77)	(76)	**(7,792)**	(3,794)	(904)
Share-based compensation	18	**47**	30	(25)	**44**	42	(32)
Interest income		**(96,308)**	(101,583)	(80,190)	**(75,728)**	(83,279)	(61,391)
Interest received		**98,573**	100,293	77,715	**77,998**	83,294	59,960
Interest expense		**24,401**	35,638	24,347	**17,651**	27,507	18,233
Interest paid		**(25,768)**	(35,300)	(23,440)	**(18,749)**	(27,375)	(17,494)
(Increase) decrease in:							
Interbank loans receivable and securities purchased under agreements to resell		**320**	1,898	(821)	**201**	1,895	(966)
Financial assets at fair value through profit or loss		**(13,270)**	(8,472)	(2,257)	**(16,339)**	(8,469)	(236)
Loans and advances, net		**39,921**	(125,028)	(154,077)	**35,369**	(109,711)	(140,860)
Assets held for sale		**173**	400	655	**63**	353	509
Assets attributable to insurance operations		**(351)**	287	465	**-**	-	-
Other assets		**(3,084)**	5,611	(8,096)	**(5,609)**	5,702	(3,761)
Increase (decrease) in:							
Deposit liabilities		**20,827**	109,598	23,546	**13,744**	109,252	23,244
Due to Bangko Sentral ng Pilipinas and other banks		**(150)**	(1,041)	2,770	**(150)**	(1,041)	2,770
Manager's checks and demand drafts outstanding		**(1,191)**	1,368	(91)	**(974)**	1,067	(408)
Accrued taxes, interest and other expenses		**315**	303	1,033	**(42)**	411	562
Liabilities attributable to insurance operations		**286**	5	(457)	**-**	-	-
Derivative financial instruments		**2,780**	(38)	52	**2,780**	(28)	45
Deferred credits and other liabilities		**(5,668)**	8,806	2,493	**(4,832)**	7,245	2,506
Net cash from (used in) operations		**100,855**	43,715	(97,435)	**72,628**	46,927	(90,591)
Income taxes paid		**(11,601)**	(10,363)	(7,115)	**(10,080)**	(9,135)	(5,560)
Net cash from (used in) operating activities		**89,254**	33,352	(104,550)	**62,548**	37,792	(96,151)

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2020
(In Millions of Pesos)

	Notes	Consolidated			Parent		
		2020	2019	2018	**2020**	2019	2018
(forwarded)							
CASH FLOWS FROM INVESTING ACTIVITIES							
(Increase) decrease in:							
Investment securities, net	8,9	**(46,513)**	(4,343)	(25,828)	**(37,113)**	(3,574)	(31,400)
Bank premises, furniture, fixtures and equipment, net	11	**(768)**	(13,400)	(5,048)	**(4,397)**	(10,285)	(2,518)
Investment properties, net	14	**6**	(57)	1	**4**	(55)	12
Investment in subsidiaries and associates, net	12	**(1,926)**	933	305	**(1,321)**	(89)	(899)
Assets attributable to insurance operations		**(481)**	(1,368)	364	**-**	-	-
Dividends received	19	**57**	77	76	**7,792**	3,794	904
Net cash (used in) from investing activities		**(49,625)**	(18,158)	(30,130)	**(35,035)**	(10,209)	(33,901)
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash dividends paid	17,18	**(8,124)**	(12,167)	(7,598)	**(8,124)**	(12,165)	(7,598)
Proceeds from share issuance	18	**361**	306	50,035	**361**	306	50,035
Increase (decrease) in bills payable and other borrowed funds	16	**1,110**	(16,064)	83,384	**13,819**	(24,351)	80,158
Payments for principal portion of lease liabilities		**(1,458)**	(1,471)	-	**(1,108)**	(1,151)	-
Net cash (used in) from financing activities		**(8,111)**	(29,396)	125,821	**4,948**	(37,361)	122,595
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**31,518**	(14,202)	(8,859)	**32,461**	(9,778)	(7,457)
CASH AND CASH EQUIVALENTS							
January 1	4,5	**299,068**	313,270	322,129	**263,344**	273,122	280,579
December 31		**330,586**	299,068	313,270	**295,805**	263,344	273,122

Non-cash financing and investing activities	11,16,18
Cash flows from discontinued operations	12

(The notes on pages 1 to 95 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2020 and 2019 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2020

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, 2020, the BPI Group has 19,952 employees (2019 - 21,429 employees) and operates 1,173 branches (2019 - 1,167 branches) and 2,707 automated teller machines (ATMs) and cash accept machines (CAMs) (2019 - 2,822) 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.

Coronavirus pandemic

On March 16, 2020, the Philippine Government declared the entire island of Luzon under an Enhanced Community Quarantine (ECQ) due to the increasing coronavirus disease (COVID-19) cases in the country. The ECQ mandated the closure of non-essential businesses and strict home quarantine which resulted in the slowdown of the economy. Measures are implemented to protect the health and safety of the BPI Group's employees, clients and partners, to support business continuity and to manage financial impact to a minimum. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. While banks are authorized to operate during ECQ, branch operations were sorely impacted by COVID-19, with 25% of the branches operating on a skeletal basis during the beginning of the lockdown. With the transition to general community quarantine (GCQ) on June 1, 2020, branch operations have been back to 100%. At this stage, the BPI Group deems it prudent to review its branch network strategy given the acceleration in digital adoption by its clients and other considerations.

While quarantine measures over highly urbanized cities in the National Capital Region (NCR) were relaxed following the proclamation of a modified enhanced community quarantine effective May 16, 2020, and subsequently, a GCQ effective June 1, 2020, operations across various industries remain below full capacity in these areas. Further, certain parts of the Philippines remain under ECQ.

Effect of the suspension of loan payments mandated by the Bayanihan Acts I and II

On March 24, 2020, Congress passed Republic Act No. 11469 or the Bayanihan to Heal as One Act (Bayanihan Act I) into law, which conferred emergency powers to the President of the Philippines. Section 4(aa) of Bayanihan Act I directed all banks to implement a thirty (30)-day grace period for the payment of all loans falling due within the ECQ period without interests, penalties, and other charges. Under this law, persons with multiple loans were granted a grace period of 30 days for each and every loan.

The following were the reprieve measures issued by the government through the Implementing Rules and Regulations (IRR) of Section 4(aa) of Bayanihan Act I for all loans regardless of status with payments (e.g., principal and/or interest) falling due within the ECQ period (March 17, 2020 to May 31, 2020, or as extended):

- implementation of mandatory grace period to extend payment due dates of loans;
- non-imposition of interest on interest and waiver of fees and charges for non-payment;
- non-imposition of documentary stamp tax on credit extensions; and
- payment on a staggered basis for accrued interest on implemented mandatory grace period.

The status of the loans prior to the grant of the mandatory grace period and/or extension of maturity dates or payment due dates were retained. The BPI Group monitored non-performing loans (NPL) internally: 1) based on aging of accounts without the grace period and 2) aging with grace period, as the grant of the grace period may have artificially understated the actual NPL levels.

On September 11, 2020, the President of the Philippines signed into law Republic Act No. 11494 or the Bayanihan to Recover as One Act (Bayanihan Act II), in view of the continuing rise of COVID-19 cases and the ensuing economic disruption brought about by the pandemic. Under Section 4(uu) of Bayanihan Act II, all banks are directed to implement a mandatory one-time sixty (60)-day grace period for the payment of all existing, current, and outstanding loans falling due on or before December 31, 2020, without incurring interest on interest, penalties, fees, or other charges. The amounts falling due within the 60-day grace period may be settled in full after the 60-day grace period, or on a staggered basis until December 31, 2020, or as may be agreed upon by the parties.

While Bayanihan Acts I and II both provide moratorium on the payment of eligible loans, they differ in the qualification of eligible loans, the number of days provided as grace period and the allowable payment schemes.

As a result of the COVID-19 pandemic, the BPI Group has seen an increase in the level of NPL attributable to the temporary/permanent closure of certain businesses, suspended business operations and limited travel and exchange of goods. The actual delinquency status or effect on the NPL levels across different segments and products became evident in the last quarter of 2020 after the lapse of the Bayanihan Act I and may be more pronounced in the early quarters of 2021 considering the effect of Bayanihan Act II relief measures.

Approval and authorization for issuance of financial statements

These financial statements have been approved and authorized for issuance by the Board of Directors (BOD) of the Parent Bank on February 24, 2021.

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

Subsidiaries	Country of incorporation	Principal activities	% of ownership 2020	2019
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**	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 Century Tokyo Lease and Finance Corporation* (BPI CTL)	Philippines	Leasing	**NA**	51
BPI Century Tokyo Rental Corporation**	Philippines	Rental	**NA**	51
CityTrust Securities Corporation**	Philippines	Securities dealer	**NA**	51
BPI/MS Insurance Corporation	Philippines	Non-life insurance	**50.85**	50.85

**Deconsolidated beginning December 23, 2020 and reclassified to investment in associate (Note 12).*
***These companies are no longer subsidiaries of the Parent Bank following the deconsolidation of BPI CTL (Note 12).*

Note 2 - Assets and Liabilities Attributable to Insurance Operations

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

	2020	2019
	(In Millions of Pesos)	
Assets		
Cash and cash equivalents (Note 4)	**321**	217
Insurance balances receivable, net	**5,512**	5,010
Investment securities		
Financial assets at fair value through profit or loss	**5,300**	5,382
Financial assets at fair value through other comprehensive income (OCI)	**4,835**	4,344
Financial assets at amortized cost	**224**	153
Investment in associates	**169**	167
Accounts receivable and other assets, net	**2,203**	2,320
Land, building and equipment	**162**	197
	18,726	17,790

	2020	2019
	(In Millions of Pesos)	
Liabilities		
Reserves and other balances	**12,565**	12,544
Accounts payable, accrued expenses and other payables	**1,782**	1,517
	14,347	14,061

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

	2020	2019	2018
		(In Millions of Pesos)	
Premiums earned and related income	**3,607**	3,841	3,750
Investment and other income	**1,026**	712	755
	4,633	4,553	4,505
Benefits, claims and maturities	**1,720**	1,942	2,049
Decrease in actuarial reserve liabilities	**(315)**	(412)	(379)
Commissions	**879**	938	800
Management and general expenses	**822**	838	799
Other expenses	**21**	24	13
	3,127	3,330	3,282
Income before income tax and minority interest	**1,506**	1,223	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. Interest charged for these funds is based on the BPI Group's cost of capital.

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

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

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

Following the loss of control of the Parent Bank over BPI CTL effective December 23, 2020 (Note 12), the BPI Group's segment reporting was updated to exclude the contribution of CTL. Consequently, the segment results of operations for 2019 and 2018 were restated. The details of the BPI Group's reportable segments as at and for the years ended December 31 follows:

	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			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
		(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

	2018			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
		(In Millions of Pesos)		
Net interest income	33,973	10,786	16,148	60,907
Provision for credit and impairment losses	1,712	3,002	6	4,720
Net interest income after provision for credit and impairment losses	32,261	7,784	16,142	56,187
Fees, commissions and other income, net	12,291	1,510	5,280	19,081
Total income	44,552	9,294	21,422	75,268
Compensation and fringe benefits	12,554	2,017	1,002	15,573
Occupancy and equipment-related expenses	8,570	634	231	9,435
Other operating expenses	14,484	2,859	1,716	19,059
Total other expenses	35,608	5,510	2,949	44,067
Operating profit	8,944	3,784	18,473	31,201
Income tax expense				6,613
Net income from				
Continuing operations				23,203
Discontinued operations				126
Share in net income of associates				700
Total assets	534,234	1,113,367	409,797	2,057,398
Total liabilities	1,124,800	552,969	137,872	1,815,641

Reconciliation of segment results to consolidated results of operations:

	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

	2018		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
		(In Millions of Pesos)	
Net interest income	60,907	(5,290)	55,617
Provision for credit and impairment losses	4,720	(1)	4,719
Net interest income after provision for credit and impairment losses	56,187	(5,289)	50,898
Fees, commissions and other income, net	19,081	1,922	21,003
Total income	75,268	(3,367)	71,901
Compensation and fringe benefits	15,573	(372)	15,201
Occupancy and equipment-related expenses	9,435	2,402	11,837
Other operating expenses	19,059	(4,012)	15,047
Total other expenses	44,067	(1,982)	42,085
Operating profit	31,201	(1,385)	29,816
Income tax expense	6,613		6,613
Net income from			
Continuing operations	23,203		23,203
Discontinued operations	126		126
Share in net income of associates	700		700
Total assets	2,057,398	27,830	2,085,228
Total liabilities	1,815,641	18,049	1,833,690

"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:

		Consolidated		Parent	
	Notes	**2020**	2019	**2020**	2019
		(In Millions of Pesos)			
Cash and other cash items		**37,176**	47,256	**35,912**	45,982
Due from Bangko Sentral ng Pilipinas (BSP)		**223,989**	207,845	**197,974**	181,815
Due from other banks		**40,155**	22,356	**36,605**	18,356
Interbank loans receivable and securities purchased under agreements to resell (SPAR)	5	**28,945**	21,394	**25,314**	17,191
Cash and cash equivalents attributable to insurance operations	2	**321**	217	**-**	-
		330,586	299,068	**295,805**	263,344

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

The account at December 31 consists of transactions with:

	Consolidated		Parent	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
BSP	**19,450**	20,306	**15,819**	16,947
Other banks	**10,836**	2,293	**10,839**	1,451
	30,286	22,599	**26,658**	18,398
Accrued interest receivable	**6**	11	**5**	6
	30,292	22,610	**26,663**	18,404
Allowance for impairment	**(41)**	(40)	**(41)**	(40)
	30,251	22,570	**26,622**	18,364

As at December 31, 2020, Interbank loans receivable and SPAR maturing within 90 days from the date of acquisition amounting to P28,945 million (2019 - P21,394 million) for the BPI Group and P25,314 million (2019 - P17,191 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	
	2020	2019	**2020**	2019
Peso-denominated	**2.00 - 8.28**	3.49 - 5.74	**2.00 - 8.28**	4.33 - 10.48
US dollar-denominated	**0.07 - 0.30**	1.55 - 2.62	**0.07 - 0.30**	1.55 - 2.62

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

The account at December 31 consists of:

	Note	Consolidated		Parent	
		2020	2019	**2020**	2019
		(In Millions of Pesos)			
Debt securities					
Government securities		**29,942**	17,017	**28,784**	14,482
Commercial papers of private companies		**2,410**	4,082	**365**	283
Listed equity securities		**70**	73	**-**	-
Derivative financial assets	7	**4,788**	2,933	**4,716**	2,923
		37,210	24,105	**33,865**	17,688

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	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Held for trading				
Foreign exchange derivatives				
Currency swaps	**851**	630	**1,699**	950
Currency forwards	**560**	436	**806**	450
Interest rate swaps	**3,088**	1,856	**3,152**	1,414
Warrants	**1**	1	**-**	-
Equity option	**10**	10	**-**	-
Held for hedging				
Cross currency interest rate swap	**278**	-	**-**	63
	4,788	2,933	**5,657**	2,877

Parent

	Assets		Liabilities	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Held for trading				
Foreign exchange derivatives				
Currency swaps	**851**	630	**1,699**	950
Currency forwards	**498**	436	**806**	450
Interest rate swaps	**3,088**	1,856	**3,152**	1,414
Warrants	**1**	1	**-**	-
Held for hedging				
Cross currency interest rate swap	**278**	-	**-**	63
	4,716	2,923	**5,657**	2,877

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. The hedge has been reassessed to be effective at reporting date.

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	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Debt securities				
Government securities	**100,063**	39,751	**91,971**	36,409
Commercial papers of private companies	**26,092**	10,624	**26,006**	9,914
	126,155	50,375	**117,977**	46,323
Accrued interest receivable	**696**	704	**646**	686
	126,851	51,079	**118,623**	47,009
Equity securities				
Listed	**1,784**	1,738	**1,369**	972
Unlisted	**1,551**	1,088	**308**	339
	3,335	2,826	**1,677**	1,311
	130,186	53,905	**120,300**	48,320

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	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Current (within 12 months)	**42,777**	3,105	**41,472**	830
Non-current (over 12 months)	**84,074**	47,974	**77,151**	46,179
	126,851	51,079	**118,623**	47,009

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
Peso-denominated	**1.70 - 7.18**	4.09 - 5.75	**1.70 - 7.18**	4.42 - 5.75
Foreign currency-denominated	**0.06 - 5.73**	2.14 - 2.94	**0.06 - 5.73**	2.14 - 2.94

Interest income from debt instruments recognized in the statement of income for the year ended December 31, 2020 amounts to P3,398 million (2019 - P1,937 million; 2018 - P278 million) and P3,124 million (2019 - P1,871 million; 2018 - P160 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, 2020 amounts to P57 million (2019 - P76 million; 2018 - P74 million) and P48 million (2019 - P48 million; 2018 - P41 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	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Government securities	**166,907**	190,773	**150,209**	170,366
Commercial papers of private companies	**75,411**	80,644	**64,522**	78,285
	242,318	271,417	**214,731**	248,651
Accrued interest receivable	**2,348**	3,688	**2,092**	3,355
	244,666	275,105	**216,823**	252,006
Allowance for impairment	**(13)**	-	**(13)**	-
	244,653	275,105	**216,810**	252,006

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
Peso-denominated	**1.67 - 4.20**	3.62 - 4.03	**1.67 - 4.20**	3.64 - 4.05
Foreign currency-denominated	**2.45 - 2.61**	3.08 - 4.69	**2.45 - 2.61**	3.11 - 4.83

In 2020, the BPI Group and the Parent Bank recognized a net gain on derecognition of P4,647 million and P4,078 million, respectively, due mainly to its disposal of a portfolio of debt securities in response to an impending change in tax regulations and to manage unanticipated credit and business risks caused by the coronavirus pandemic. In 2019 and 2018, the BPI Group and the Parent Bank sold an insignificant amount of debt securities, which resulted in a gain of P128 million (2018 - nil) and P104 million (2018 - P6 million loss), respectively.

Interest income from these investment securities recognized in the statement of income for the year ended December 31, 2020 amounts to P8,398 million (2019 - P10,318 million; 2018 - P9,035 million) and P7,386 million (2019 - P9,675 million; 2018 - P8,514 million) for the BPI Group and the Parent Bank, respectively.

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
		(In Millions of Pesos)		
Current (within 12 months)	**46,389**	15,165	**33,404**	10,686
Non-current (over 12 months)	**198,264**	259,940	**183,406**	241,320
	244,653	275,105	**216,810**	252,006

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 fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss. 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 fair value through profit or loss.

Note 10 - Loans and Advances, net

Details of this account at December 31 are as follows:

	Consolidated		Parent	
	2020	2019	**2020**	2019
Corporate loans		(In Millions of Pesos)		
Large corporate customers	**1,112,069**	1,147,643	**1,092,514**	1,121,050
Small and medium enterprise	**66,869**	73,357	**49,699**	54,553
Retail loans				
Credit cards	**68,057**	75,100	**65,686**	72,785
Real estate mortgages	**140,552**	137,380	**10**	11
Auto loans	**51,045**	53,789	**-**	-
Others	**11,616**	11,421	**616**	499
	1,450,208	1,498,690	**1,208,525**	1,248,898
Accrued interest receivable	**8,976**	9,660	**6,180**	6,958
Unearned discount/income	**(5,013)**	(7,040)	**(4,838)**	(5,475)
	1,454,171	1,501,310	**1,209,867**	1,250,381
Allowance for impairment	**(46,758)**	(25,974)	**(34,796)**	(18,605)
	1,407,413	1,475,336	**1,175,071**	1,231,776

As at December 31, 2020, the BPI Group has no outstanding loans and advances used as security for bills payable (2019 - P19,628 million) (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	
	2020	2019	**2020**	2019
		(In Millions of Pesos)		
Current (within 12 months)	**520,304**	552,190	**489,943**	517,516
Non-current (over 12 months)	**933,867**	949,120	**719,924**	732,865
	1,454,171	1,501,310	**1,209,867**	1,250,381

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.

Details of finance lease receivables (included in "Corporate loans" category above) arising from lease contracts as at December 31, 2019 are as follows:

	Amount
	(In Millions of Pesos)
Total future minimum lease collections	12,666
Unearned finance income	(1,395)
Present value of future minimum lease collections	11,271
Allowance for credit losses	(628)
	10,643

Details of future gross minimum lease payments receivable as at December 31, 2019 follow:

	Amount
	(In Millions of Pesos)
Not later than one year	1,532
Later than one year but not later than five years	10,373
More than five years	761
	12,666
Unearned finance income	(1,395)
	11,271

There are no contingent rents arising from lease contracts outstanding at December 31, 2019.

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
Commercial loans				
Peso-denominated loans	**4.53 - 5.20**	5.00 - 5.95	**4.75 - 5.25**	5.24 - 5.88
Foreign currency-denominated loans	**2.32 - 3.98**	4.18 - 4.91	**2.41 - 3.98**	4.18 - 4.91
Real estate mortgages	**6.50 - 8.05**	7.30 - 7.74	**-**	0.10 - 4.26
Auto loans	**8.97 - 9.87**	8.31 - 10.69	**-**	-

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	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	**257,311**	278,099	**132,600**	138,607
Chattel mortgage	**51,821**	57,037	**8**	10
Others	**203,629**	148,385	**201,013**	146,038
	512,761	483,521	**333,621**	284,655
Unsecured loans	**932,434**	1,008,129	**870,066**	958,768
	1,445,195	1,491,650	**1,203,687**	1,243,423

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

	2020					
	Notes	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	**Total**
	(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**

	2019				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2019, as previously reported	3,028	10,889	16,496	5,580	35,993
Impact of adoption of PFRS 16	-	9,051	-	-	9,051
January 1, 2019, as restated	3,028	19,940	16,496	5,580	45,044
Additions	-	2,607	1,326	1,570	5,503
Disposals	(9)	(224)	(707)	(1,019)	(1,959)
Transfers	-	(367)	(92)	-	(459)
December 31, 2019	3,019	21,956	17,023	6,131	48,129
Accumulated depreciation					
January 1, 2019	-	5,511	13,040	1,190	19,741
Depreciation and amortization	-	2,829	1,712	1,364	5,905
Disposals	-	(141)	(383)	(687)	(1,211)
Transfers	-	(20)	(12)	(22)	(54)
December 31, 2019	-	8,179	14,357	1,845	24,381
Net book value, December 31, 2019	3,019	13,777	2,666	4,286	23,748

Parent

	2020				
	Notes	Land	Buildings and leasehold improvements	Furniture and equipment	**Total**
		(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)**
Transfers		-	-	-	**-**
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)**
Transfers		-	-	-	**-**
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**

	2019			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2019, as previously reported	2,677	9,615	14,708	27,000
Impact of adoption of PFRS 16	-	7,900	-	7,900
January 1, 2019, as restated	2,677	17,515	14,708	34,900
Additions	-	1,767	1,036	2,803
Disposals	(9)	(223)	(567)	(799)
Transfers	-	(103)	-	(103)
December 31, 2019	2,668	18,956	15,177	36,801
Accumulated depreciation				
January 1, 2019	-	5,040	11,814	16,854
Depreciation and amortization	-	2,352	1,484	3,836
Disposals	-	(141)	(324)	(465)
Transfers	-	(19)	-	(19)
December 31, 2019	-	7,232	12,974	20,206
Net book value, December 31, 2019	2,668	11,724	2,203	16,595

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 2020, the Parent Bank realized a gain of P77 million (2019 - P855 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**	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Carrying value (net of impairment)				
Investments at equity method	**7,510**	6,746	-	-
Investments at cost method	-	-	**11,039**	10,031
	7,510	6,746	**11,039**	10,031

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 2020	2019	Acquisition cost 2020	2019
		(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	**880**	820
BPI-Philamlife Assurance Corporation (BPLAC)	Philippines	**47.96**	47.96	**389**	389
BPI Century Tokyo Lease and Finance Corporation**	Philippines	**49.00**	51.00	**316**	-
Beacon Property Ventures, Inc.	Philippines	**20.00**	20.00	**72**	72
CityTrust Realty Corporation	Philippines	**40.00**	40.00	**2**	2
National Reinsurance Corporation of the Philippines*	Philippines	**-**	13.69	**-**	204
				3,001	2,829

**The Parent Bank has a significant influence due to its representation in the governing body of National Reinsurance Corporation of the Philippines.*
***BPI CTL is a subsidiary of the Parent Bank until December 22, 2020.*

Beginning July 1, 2020, the Parent Bank lost its significant influence over National Reinsurance Corporation of the Philippines. Consequently, the Parent Bank has irrevocably designated this investment to be classified as FVOCI. The carrying amount of the investment as at date of reclassification, which is also its deemed cost, amount to P204 million.

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

	2020	2019
	(In Millions of Pesos)	
Acquisition cost		
At January 1	**2,829**	2,741
Effect of deconsolidation	**316**	-
Additions during the year	**60**	88
Reclassification	**(204)**	-
At December 31	**3,001**	2,829
Accumulated equity in net income		
At January 1	**3,007**	3,264
Effect of deconsolidation	**1,352**	-
Share in net income for the year	**487**	372
Dividends received	**(343)**	(629)
Reclassification	**(302)**	-
At December 31	**4,201**	3,007
Accumulated share in other comprehensive income (loss)		
At January 1	**1,050**	(206)
Effect of deconsolidation	**(13)**	-
Share in other comprehensive income for the year	**(589)**	1,256
At December 31	**448**	1,050
Allowance for impairment	**(140)**	(140)
	7,510	6,746

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:

	2020	2019
	(In Millions of Pesos)	
Total assets	**128,719**	132,126
Total liabilities	**113,630**	113,282
Total revenues	**19,042**	25,911
Total net income	**1,484**	2,007

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	
	2020	2019	**2020**	2019	**2020**	2019
			(In Millions of Pesos)			
Subsidiaries						
BPI Europe Plc.(BPI Europe)	**3,160**	1,910	**-**	-	**3,160**	1,910
BPI Direct BanKo, Inc., A Savings Bank (BanKo)	**1,509**	1,009	**-**	-	**1,509**	1,009
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)	**633**	573	**(612)**	(299)	**21**	274
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. (BFB)	**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
BPI Century Tokyo Lease and Finance Corporation	**-**	329	**-**	-	**-**	329
BPI Express Remittance Corp. USA (BERC USA)	**-**	191	**-**	-	**-**	191
Green Enterprises S.R.L. in Liquidation (Green Enterprises)	**-**	54	**-**	-	**-**	54
BPI Express Remittance Spain S.A (BERC Spain)	**-**	26	**-**	-	**-**	26
Others	**321**	321	**-**	-	**321**	321
Associates	**2,120**	2,009	**-**	-	**2,120**	2,009
	11,651	10,330	**(612)**	(299)	**11,039**	10,031

In 2020, the Parent Bank made additional capital infusions to BPI Europe, BanKo and BPHI amounting to P1,250 million (2019 - nil), P500 million (2019 - nil) and P60 million (2019 - P70 million), respectively. In addition, BERC USA, Green Enterprises, and BERC Spain were liquidated during the year ended December 31, 2020 and proceeds equal to the remaining book value were received by the Parent Bank.

Likewise, the Parent Bank in 2020, recognized an impairment loss of P313 million (2019 - nil) 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 11.63% (2019 - 13.44%) in assessing its value in use, which amounts to P21 million in 2020 (2019 - P274 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, 2020 and 2019 in its subsidiaries apart from BPHI.

For the 2020 and 2019 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 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 years ended December 31, 2019 and 2018.

	2020	2019	2018
	(In Millions of Pesos)		
INTEREST INCOME			
On loans and advances	370	1,095	718
On investment securities	-	-	1
On deposits with BSP and other banks	1	1	-
	371	1,096	719
INTEREST EXPENSE			
On bills payable and other borrowed funds	271	726	492
NET INTEREST INCOME	100	370	227
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	418	260	204
NET INTEREST (EXPENSE) INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	(318)	110	23
OTHER INCOME			
Fees, commissions, and other operating income	949	1,867	1,768
Income (loss) from foreign exchange trading	28	(9)	-
	977	1,858	1,768
OTHER EXPENSES			
Compensation and fringe benefits	63	118	114
Occupancy and equipment-related expenses	727	1,543	1,399
Other operating expenses	115	228	95
	905	1,889	1,608
(LOSS) PROFIT BEFORE INCOME TAX	(246)	79	183
INCOME TAX EXPENSE			
Current	90	62	104
Deferred	(125)	(65)	(47)
	(35)	(3)	57
NET (LOSS) INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	(211)	82	126

	2020	2019	2018
	(In Millions of Pesos)		
Net cash flows from operating activities	3,791	941	(2,304)
Net cash flows from investing activities	3,539	3	(3)
Net cash flows from financing activities	(7,326)	(884)	2,293
Net increase (decrease) in cash flows from discontinued operations	4	60	(14)

The carrying amounts of assets and liabilities of 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	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Deferred income tax assets				
Allowance for credit and impairment losses	**15,067**	8,345	**10,675**	5,644
Pension liability	**2,558**	1,129	**2,368**	897
Provisions	**307**	394	**251**	313
Others	**155**	354	**144**	263
Total deferred income tax assets	**18,087**	10,222	**13,438**	7,117
Deferred income tax liabilities				
Unrealized gain on property appraisal	**(476)**	(483)	**(476)**	(483)
Others	**(86)**	(33)	**(124)**	19
Total deferred income tax liabilities	**(562)**	(516)	**(600)**	(464)
Deferred income tax assets, net	**17,525**	9,706	**12,838**	6,653

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
At January 1	**9,706**	8,536	**6,653**	5,723
Amounts recognized in statement of income	**6,845**	685	**5,144**	583
Amounts recognized in other comprehensive income	**974**	485	**1,041**	347
At December 31	**17,525**	9,706	**12,838**	6,653

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

	Consolidated			Parent		
	2020	2019	2018	**2020**	2019	2018
	(In Millions of Pesos)					
Allowance for impairment	**(6,637)**	(946)	(547)	**(4,992)**	(718)	(593)
Pension	**(45)**	18	68	**(55)**	9	9
NOLCO	**17**	83	129	**-**	-	-
Provisions	**-**	-	(1)	**-**	-	6
Others	**(180)**	160	(383)	**(97)**	126	(198)
	(6,845)	(685)	(734)	**(5,144)**	(583)	(776)

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, 2019 amounting to P65 million (2018 - P47 million) (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:

	Note	Consolidated 2020	Consolidated 2019	Parent 2020	Parent 2019
			(In Millions of Pesos)		
Sundry debits		**6,456**	1,663	**6,098**	1,518
Accounts receivable		**2,690**	2,358	**2,402**	2,218
Intangible assets		**2,530**	2,797	**2,178**	2,435
Prepaid expenses		**984**	944	**705**	578
Rental deposits		**762**	734	**650**	623
Accrued trust and other fees		**703**	747	**141**	338
Creditable withholding tax		**330**	503	**193**	107
Investment properties		**150**	156	**139**	143
Residual value of equipment for lease	12	**-**	2,781	**-**	-
Miscellaneous assets		**3,224**	3,239	**2,728**	2,260
		17,829	15,922	**15,234**	10,220
Allowance for impairment		**(983)**	(515)	**(822)**	(310)
		16,846	15,407	**14,412**	9,910

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 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 2020	Consolidated 2019	Parent 2020	Parent 2019
		(In Millions of Pesos)		
At January 1	**515**	825	**310**	665
Provision for impairment losses	**684**	54	**614**	5
Transfer/reallocation	**-**	(38)	**(29)**	(36)
Write-off	**(216)**	(326)	**(73)**	(324)
At December 31	**983**	515	**822**	310

Other assets are expected to be realized as follows:

	Consolidated 2020	Consolidated 2019	Parent 2020	Parent 2019
		(In Millions of Pesos)		
Current (within 12 months)	**15,079**	10,089	**12,907**	7,632
Non-current (over 12 months)	**2,750**	5,833	**2,327**	2,588
	17,829	15,922	**15,234**	10,220

Note 15 - Deposit Liabilities

The account at December 31 consists of:

	Consolidated		Parent	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Demand	**314,853**	272,020	**304,140**	262,149
Savings	**1,051,069**	899,181	**925,409**	795,936
Time	**350,255**	524,142	**240,661**	398,373
	1,716,177	1,695,343	**1,470,210**	1,456,458

Deposit liabilities include amounts due to related parties (Note 25).

Deposit liabilities are expected to be settled as follows:

	Consolidated		Parent	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Current (within 12 months)	**731,596**	796,447	**646,179**	711,910
Non-current (over 12 months)	**984,581**	898,896	**824,031**	744,548
	1,716,177	1,695,343	**1,470,210**	1,456,458

In 2019, the Parent Bank issued the first tranche of long-term negotiable certificates of deposit (LTNCD) amounting to P3 billion out of the established P50-billion LTNCD program approved by the BSP. The LTNCDs pay interest on a quarterly basis at a rate 4% per annum and carry a tenor of 5.5 years maturing on April 25, 2025. The proceeds from the LTNCD issuance are included in "Time deposits" category.

Related interest expense on deposit liabilities is presented below:

	Consolidated			Parent		
	2020	2019	2018	**2020**	2019	2018
	(In Millions of Pesos)					
Demand	**625**	628	687	**578**	574	630
Savings	**6,053**	6,738	7,384	**4,944**	5,541	6,061
Time	**12,308**	21,508	13,184	**7,255**	15,361	8,954
	18,986	28,874	21,255	**12,777**	21,476	15,645

BSP reserve requirement

The Parent Bank and its bank subsidiaries should comply with a minimum reserve requirement on deposit and deposit substitute liabilities in local currency.

In 2019, the reserve ratio decreased to 14% from 18% following the BSP's decision to reduce the requirements. In 2020, the BSP approved further reduction in reserves which brought the requirement down to 12% for universal and commercial banks effective April 3, 2020 by virtue of BSP Circular 1082. For thrift banks, the BSP approved reduction in reserves which brought the requirement from 4% down to 3% effective July 31, 2020 by virtue of BSP Circular 1092.

Reserves must be set aside in deposits with the BSP. As at December 31, 2020, the reserves (included in Due from BSP) amounted to P154,696 million (2019 - P178,591 million) for the BPI Group and P147,618 million (2019 - P169,303 million) for the Parent Bank. The BPI Group is in full compliance with the reserve requirement as at December 31, 2020 and 2019.

Note 16 - Bills Payable and Other Borrowed Funds

The account at December 31 consists of:

	Consolidated		Parent	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Bills payable				
Local banks	**5,406**	34,364	**5,406**	21,810
Foreign banks	**18,190**	31,417	**16,136**	29,255
Other borrowed funds	**128,351**	85,056	**118,806**	75,464
	151,947	150,837	**140,348**	126,529

Bills payable

Bills payable include mainly funds borrowed from various banking institutions which were lent out to customers of the BPI Group in accordance with the agreed financing programs. Loans and advances arising from these financing programs serve as collateral for this liability (Note 10). The average payment terms of these bills payable is 0.59 years (2019 - 0.90 years).

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
Private firms and local banks - Peso-denominated	**0.89 - 4.30**	2.20 - 6.67	**0.89 - 4.00**	2.25 - 6.25
Foreign banks - Foreign currency-denominated	**0.11 - 2.85**	0.63 - 4.20	**0.11 - 2.85**	1.45 - 3.66

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 at December 31, 2020 as follows:

Description of instrument	Date of drawdown	Interest rate	Maturity	Face amount	Carrying amount
				(In Millions of Pesos)	
Fixed rate bonds, unconditional, unsecured and unsubordinated bonds	January 24, 2020	4.2423%	January 24, 2022	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	21,391

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 P9,545 million as at December 31, 2020 (2019 - P9,510 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 2020	Carrying amount 2019
				(In Millions of Pesos)		
US$ 600 million, 5-year senior unsecured Bonds	September 4, 2018	4.25%	September 4, 2023	32,000	**28,695**	30,214
US$ 300 million, 5-year senior unsecured Green Bonds	September 10, 2019	2.50%	September 10, 2024	15,572	**14,330**	15,091
CHF 100 million, 2-year senior unsecured Green Bonds	September 24, 2019	-	September 24, 2021	5,250	**5,415**	5,167

The CHF-denominated bonds are designated as hedged items in a cash flow hedge initiated by the Parent Bank in 2019. See Note 7 for the related disclosures.

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

	Consolidated			Parent		
	2020	2019	2018	2020	2019	2018
			(In Millions of Pesos)			
Bills payable	**471**	2,823	2,024	**458**	2,834	2,013
Other borrowed funds	**4,587**	3,215	575	**4,137**	3,197	575
	5,058	6,038	2,599	**4,595**	6,031	2,588

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

	Note	Consolidated		Parent	
		2020	2019	2020	2019
			(In Millions of Pesos)		
At January 1		**150,837**	166,901	**126,529**	150,880
Additions		**233,553**	374,332	**185,258**	291,585
Maturities		**(221,404)**	(387,343)	**(165,879)**	(313,027)
Amortization of discount		**(238)**	(17)	**(275)**	(19)
Exchange differences		**(5,329)**	(3,036)	**(5,285)**	(2,890)
Effect of deconsolidation	12	**(5,472)**	-	-	-
At December 31		**151,947**	150,837	**140,348**	126,529

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

	Consolidated		Parent	
	2020	2019	2020	2019
		(In Millions of Pesos)		
Current (within 12 months)	**57,955**	48,291	**55,901**	35,948
Non-current (over 12 months)	**93,992**	102,546	**84,447**	90,581
	151,947	150,837	**140,348**	126,529

Note 17 - Deferred Credits and Other Liabilities

The account at December 31 consists of the following:

	Notes	Consolidated		Parent	
		2020	2019	2020	2019
			(In Millions of Pesos)		
Bills purchased - contra		**12,802**	15,301	**12,801**	15,299
Lease liabilities	20	**7,811**	7,856	**6,559**	6,739
Accounts payable		**5,984**	4,738	**4,661**	3,078
Other deferred credits		**2,718**	1,576	**400**	323
Due to the Treasurer of the Philippines		**942**	947	**823**	827
Outstanding acceptances		**934**	3,855	**934**	3,855
Withholding tax payable		**604**	1,062	**438**	892
Vouchers payable		-	51	-	51
Deposit on lease contract	12	-	2,639	-	-
Miscellaneous liabilities		**14,062**	9,743	**10,487**	7,875
		45,857	47,768	**37,103**	38,939

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.

Following the adoption of PFRS 16 on January 1, 2019, the BPI Group recognized lease liabilities which have been measured at the present value of the remaining lease payments using the applicable incremental borrowing rates adopted by the BPI Group (Note 20).

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	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Current (within 12 months)	**32,332**	36,818	**25,677**	36,455
Non-current (over 12 months)	**13,525**	10,950	**11,426**	2,484
	45,857	47,768	**37,103**	38,939

Note 18 - Capital Funds

a) Share capital

Details of authorized share capital of the Parent Bank follow:

	2020	2019	2018
	(In Millions of Pesos, except par value per share)		
Authorized capital (at P10 par value per share)			
Common shares	**49,000**	49,000	49,000
Preferred A shares	**600**	600	600
	49,600	49,600	49,600

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

	2020	2019	2018
	(In absolute number of shares)		
Common shares			
At January 1	**4,507,071,644**	4,502,449,501	3,939,412,661
Subscription of shares during the year	**6,029,961**	4,622,143	563,036,840
At December 31	**4,513,101,605**	4,507,071,644	4,502,449,501
	(In absolute amounts)		
Subscription receivable	**85,612,950**	71,637,390	63,417,380

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, 2020, 2019 and 2018, the Parent Bank has 12,306, 12,396, and 12,588 common shareholders, respectively. There are no preferred shares issued and outstanding at December 31, 2020, 2019 and 2018.

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

b) Reserves

The account consists of:

	Consolidated			Parent		
	2020	2019	2018	**2020**	2019	2018
	(In Millions of Pesos)					
Reserve for trust business	**199**	199	90	**-**	-	-
Executive stock option plan amortization	**183**	136	105	**162**	119	76
Reserve for self-insurance	**34**	34	34	**34**	34	34
General loan loss provision	**-**	4,739	3,867	**-**	4,739	3,867
	416	5,108	4,096	**196**	4,892	3,977

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. However, in 2020, this appropriation was reversed to surplus free as the BPI Group's PFRS 9 loan loss provision exceeded the 1% GLLP requirement of the BSP.

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. As of December 31, 2020, the weighted average fair value of options granted determined using the Black-Scholes valuation model was P5.79, P6.54, and P7.79 for the ESOP granted on 2019, 2018 and 2017, respectively.

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

	2020	2019	2018
At January 1	**13,965,001**	11,773,334	11,338,333
Granted	**3,950,000**	4,000,000	3,480,000
Exercised	**(141,667)**	(1,116,666)	(2,786,665)
Cancelled	**(1,851,667)**	(691,667)	(258,334)
At December 31	**15,921,667**	13,965,001	11,773,334
Exercisable	**8,526,667**	6,733,334	5,120,000

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		
	2020	2019	2018	**2020**	2019	2018
			(In Millions of Pesos)			
Fair value reserve on available-for-sale securities						
At January 1	**-**	-	(3,125)	**-**	-	(3,275)
From continuing operations						
Effect of PFRS 9 adoption	**-**	-	3,125	**-**	-	3,275
Unrealized fair value loss before tax	**-**	-	-	**-**	-	-
Amount recycled to profit or loss	**-**	-	-	**-**	-	-
Deferred income tax effect	**-**	-	-	**-**	-	-
At December 31	**-**	-	-	**-**	-	-
Fair value reserve on financial assets at FVOCI						
At January 1	**(84)**	(33)	-	**(61)**	69	-
From continuing operations						
Unrealized fair value loss before tax	**(69)**	(424)	(364)	**889**	(94)	(12)
Amount recycled to profit or loss	**494**	387	(390)	**479**	(32)	(128)
Effect of PFRS 9 adoption	**-**	-	757	**-**	-	210
Deferred income tax effect	**218**	(14)	(36)	**(375)**	(4)	(1)
At December 31	**559**	(84)	(33)	**932**	(61)	69
Share in other comprehensive income (loss) of insurance subsidiaries						
At January 1	**118**	(36)	45	**-**	-	-
Share in other comprehensive income (loss) for the year, before tax	**131**	389	(316)	**-**	-	-
Effect of PFRS 9 adoption	**-**	(229)	229	**-**	-	-
Deferred income tax effect	**(30)**	(6)	6	**-**	-	-
At December 31	**219**	118	(36)	**-**	-	-
Share in other comprehensive income (loss) of associates						
At January 1	**1,048**	(206)	479	**-**	-	-
Share in other comprehensive income (loss) for the year	**(602)**	1,254	(685)	**-**	-	-
At December 31	**446**	1,048	(206)	**-**	-	-
Translation adjustment on foreign operations						
At January 1	**(906)**	(704)	(678)	**(124)**	-	-
Translation differences and others	**(238)**	(202)	(26)	**(167)**	(124)	-
At December 31	**(1,144)**	(906)	(704)	**(291)**	(124)	-
Remeasurements of defined benefit obligation, net						
At January 1	**(2,615)**	(1,197)	(1,809)	**(2,131)**	(990)	(1,421)
From continuing operations						
Actuarial (losses) gains for the year	**(4,729)**	(1,829)	875	**(4,214)**	(1,508)	616
Deferred income tax effect	**1,368**	427	(264)	**1,416**	367	(185)
From discontinued operations						
Actuarial (losses) gains for the year	**(7)**	(22)	2	**-**	-	-
Deferred income tax effect	**4**	6	(1)	**-**	-	-
At December 31	**(5,979)**	(2,615)	(1,197)	**(4,929)**	(2,131)	(990)
	(5,899)	(2,439)	(2,176)	**(4,288)**	(2,316)	(921)

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)
For the year ended December 31, 2020		
May 20, 2020	0.90	4,062
October 21, 2020	0.90	4,062
		8,124
For the year ended December 31, 2019		
May 15, 2019	0.90	4,056
November 20, 2019	0.90	4,057
		8,113
For the year ended December 31, 2018		
June 20, 2018	0.90	4,052
December 19, 2018	0.90	4,052
		8,104

e) Earnings per share (EPS)

EPS is calculated as follows:

	Consolidated			Parent		
	2020	2019	2018	**2020**	2019	2018
	(In Millions of Pesos, except earnings per share amounts)					
a) Net income attributable to equity holders of the Parent Bank from:						
Continuing operations	**21,620**	28,761	23,014	**24,611**	26,218	15,428
Discontinued operations	**(211)**	42	64	**-**	-	-
b) Weighted average number of common shares outstanding during the year	**4,513**	4,507	4,316	**4,513**	4,507	4,316
c) Basic EPS (a/b) based on net income from:						
Continuing operations	**4.79**	6.38	5.33	**5.45**	5.82	3.57
Discontinued operations	**(0.05)**	0.01	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		
	2020	2019 (As Restated)	2018 (As Restated)	**2020**	2019	2018
	(In Millions of Pesos)					
Trust and asset management fees	**3,495**	2,868	2,956	**5**	4	-
Credit card income	**3,091**	3,523	3,254	**3,013**	3,423	3,126
Gain on sale of assets	**372**	1,284	1,306	**124**	898	658
Rental income	**208**	226	198	**260**	267	254
Dividend income	**57**	76	74	**7,792**	3,794	904
Miscellaneous income	**1,919**	2,298	1,317	**2,265**	2,101	977
	9,142	10,275	9,105	**13,459**	10,487	5,919

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)

On January 1, 2019, the BPI Group adopted PFRS 16, *Leases,* which requires recognition of both right-of-use assets and lease liability arising from long-term leases.

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

	Notes	Consolidated		Parent	
		2020	2019	**2020**	2019
		(In Millions of Pesos)			
Right-of-use assets					
Buildings and leasehold improvements	11	**7,222**	7,787	**6,114**	6,733
Lease liabilities (included in "Deferred credits and other liabilities")	17				
Current		**1,772**	1,485	**1,448**	1,251
Non-current		**6,039**	6,371	**5,111**	5,488
		7,811	7,856	**6,559**	6,739

Additions to the right-of-use assets (Note 11) in 2020 aggregated P1,484 million and P1,074 million for BPI Group and BPI Parent, respectively (2019 - P669 million and P442 million for BPI Group and BPI Parent, respectively). Total cash outflow for leases in 2020 amounted to P1,814 million and P1,387 million for BPI Group and BPI Parent, respectively (2019 - P1,869 million and P1,466 million for BPI Group and BPI Parent, respectively).

Amounts recognized in the statement of income relating to leases:

	Notes	Consolidated		Parent	
		2020	2019 (As Restated)	**2020**	2019
		(In Millions of Pesos)			
Depreciation expense					
Buildings and leasehold improvements	11	**2,068**	1,933	**1,691**	1,609
Interest expense (included in "Occupancy and equipment-related expenses")		**357**	398	**279**	315
Expense relating to short-term leases (included in "Occupancy and equipment-related expenses")		**125**	228	**117**	203
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in "Occupancy and equipment-related expenses")		**108**	55	**57**	43
		2,658	2,614	**2,144**	2,170

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 PRFS 16, *Leases,* introduced in May 2020 in accounting for the rent concessions. Consequently, the BPI Group recognized the following amounts for the year ended December 31, 2020:

	Consolidated	Parent
	(In Millions of Pesos)	
Rent concession (included in "Miscellaneous income")	149	141
Rent escalation deferral		
Decrease in right-of-use assets	(222)	(205)
Decrease in lease liabilities	(114)	(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 4.30% to 4.84% (2019 - 6.6% to 6.9%). 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		
		2020	2019 (As Restated)	2018 (As Restated)	**2020**	2019	2018
				(In Millions of Pesos)			
Salaries and wages		**14,896**	14,517	12,527	**11,411**	11,231	9,702
Retirement expense	23	**1,068**	771	869	**872**	536	608
Other employee benefit expenses		**2,041**	2,081	1,805	**1,587**	1,712	1,524
		18,005	17,369	15,201	**13,870**	13,479	11,834

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		
	2020	2019 (As Restated)	2018 (As Restated)	**2020**	2019	2018
			(In Millions of Pesos)			
Insurance	**4,289**	4,142	4,094	**3,065**	2,861	2,789
Taxes and licenses	**1,263**	927	778	**957**	657	539
Travel and communication	**1,132**	1,199	996	**961**	974	825
Advertising	**804**	1,492	1,310	**754**	1,316	1,123
Supervision and examination fees	**733**	653	587	**570**	506	441
Litigation expenses	**430**	549	495	**249**	308	255
Office supplies	**390**	477	589	**309**	389	490
Amortization expense	**339**	311	293	**-**	30	11
Management and other professional fees	**301**	501	601	**248**	388	626
Shared expenses	**-**	-	-	**39**	39	26
Others	**5,862**	5,988	5,304	**4,636**	4,590	4,132
	15,543	16,239	15,047	**11,788**	12,058	11,257

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. Incremental costs incurred due to the COVID-19 pandemic are likewise presented as part of other expenses.

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					
	2020		2019		2018	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
			(In Millions of Pesos)			
Statutory income tax	**7,667**	**30.00**	11,506	30.00	8,945	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(229)**	**(0.90)**	(1,553)	(4.05)	(518)	(1.73)
Tax-exempt income	**(5,320)**	**(20.82)**	(2,925)	(7.63)	(1,579)	(5.30)
Others, net	**1,788**	**7.00**	2,327	6.07	(235)	(0.79)
Effective income tax	**3,906**	**15.28**	9,355	24.39	6,613	22.18

	Parent					
	2020		2019		2018	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
			(In Millions of Pesos)			
Statutory income tax	**8,621**	**30.00**	10,327	30.00	6,134	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(258)**	**(0.90)**	(1,445)	(4.20)	(519)	(2.54)
Tax-exempt income	**(3,823)**	**(13.30)**	(1,637)	(4.76)	(495)	(2.42)
Others, net	**(412)**	**(1.43)**	960	2.79	(103)	(0.50)
Effective income tax	**4,128**	**14.37**	8,205	23.83	5,017	24.54

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. 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 same basis as in voluntary retirement, 100% of basic monthly salary of the employee at the time of his retirement for each year of service and 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 has a separate trusteed defined benefit plan. Under the plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 175% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered as least 10 years of service, or to 150% of his basic monthly salary, if he has rendered less than 10 years of service.

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

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	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Present value of defined benefit obligation	**16,532**	14,892	**14,008**	12,545
Fair value of plan assets	**(9,189)**	(12,172)	**(7,762)**	(10,130)
Pension liability recognized in the statement of condition	**7,343**	2,720	**6,246**	2,415
Effect of asset ceiling	**16**	46	**-**	-
	7,359	2,766	**6,246**	2,415

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	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
At January 1	**12,172**	9,851	**10,130**	8,195
Contributions	**915**	861	**770**	715
Interest income	**666**	648	**556**	535
Benefit payments	**(2,077)**	(1,187)	**(1,633)**	(985)
Remeasurement - return on plan assets	**(2,468)**	1,999	**(2,061)**	1,665
Transfer to defined contribution plan	**-**	-	**-**	5
Effect of deconsolidation	**(19)**	-	**-**	-
At December 31	**9,189**	12,172	**7,762**	10,130

The carrying values of the plan assets represent their fair value as at December 31, 2020 and 2019.

The plan assets are comprised of the following:

	Consolidated		Parent	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Debt securities	**4,343**	3,773	**3,668**	3,140
Equity securities	**3,807**	5,721	**3,216**	4,761
Others	**1,039**	2,678	**878**	2,229
	9,189	12,172	**7,762**	10,130

The plan assets of the unified retirement plan include investment in BPI's common shares with aggregate fair value of P390 million at December 31, 2020 (2019 - P421 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	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
At January 1	**14,892**	10,892	**12,545**	9,171
Interest cost	**830**	944	**698**	795
Current service cost	**756**	545	**628**	456
Remeasurement - changes in financial assumptions	**2,265**	3,583	**1,832**	2,984
Remeasurement - experience adjustment	**(80)**	115	**(62)**	112
Benefit payments	**(2,077)**	(1,187)	**(1,633)**	(985)
Transfers to defined contribution plan	**-**	-	**-**	12
Effect of deconsolidation	**(54)**	-	**-**	-
At December 31	**16,532**	14,892	**14,008**	12,545

The BPI Group has no other transactions with the plan other than the regular funding contributions presented above for the years ended December 31, 2020 and 2019.

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

	Consolidated			Parent		
	2020	2019	2018	**2020**	2019	2018
	(In Millions of Pesos)					
Current service cost	**754**	545	659	**628**	456	539
Net interest cost	**164**	86	96	**142**	80	69
	918	631	755	**770**	536	608

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 (2018 - P2.7 million).

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
Discount rate	**3.96%**	5.57%	**3.96%**	5.57%
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, 2021 for the BPI Group and the Parent Bank amount to P1,562 million and P1,301 million respectively, (2020 - P1,001 million and P836 million, respectively). The weighted average duration of the defined benefit obligation under the BPI unified retirement plan as at December 31, 2020 is 9.56 years (2019 - 9.65 years).

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Up to one year	**1,225**	1,135	**1,081**	873
More than 1 year to 5 years	**4,715**	3,967	**4,302**	3,470
More than 5 years to 10 years	**8,604**	8,200	**7,388**	6,923
More than 10 years to 15 years	**9,781**	11,617	**8,127**	9,765
More than 15 years to 20 years	**5,243**	6,825	**4,327**	5,853
Over 20 years	**18,369**	25,238	**12,669**	19,527

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

Consolidated

2020

		Impact on defined benefit obligation	
	Change in assumption	**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%

2019

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 4.60%	Increase by 5.00%
Salary growth rate	1.0%	Increase by 10.40%	Decrease by 9.10%

Parent

2020

		Impact on defined benefit obligation	
	Change in assumption	**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%

2019

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 4.60%	Increase by 5.00%
Salary growth rate	1.0%	Increase by 10.30%	Decrease by 9.00%

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	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Fair value of plan assets	**1,478**	1,748	**1,102**	1,325
Present value of defined benefit obligation	**(1,069)**	(811)	**(692)**	(604)
	409	937	**410**	721
Effect of asset ceiling	**428**	945	**410**	721
	(19)	(8)	**-**	-

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
At January 1	**811**	298	**604**	219
Interest cost	**45**	27	**34**	20
Current service cost	**154**	59	**105**	40
Benefit payments	**(93)**	(56)	**(73)**	(41)
Remeasurement - changes in financial assumptions	**303**	403	**189**	299
Remeasurement - experience adjustment	**(146)**	80	**(167)**	67
Effect of deconsolidation	**(5)**	-	**-**	-
At December 31	**1,069**	811	**692**	604

The movements in the fair value of plan assets follow:

	Consolidated		Parent	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
At January 1	**1,748**	1,254	**1,325**	930
Contribution paid by employer	**318**	237	**218**	163
Interest income	**101**	114	**77**	88
Benefit payments	**(93)**	(56)	**(73)**	(41)
Transfer to the plan	**-**	-	**-**	2
Remeasurement - return on plan assets	**(585)**	199	**(445)**	183
Effect of deconsolidation	**(11)**	-	**-**	-
At December 31	**1,478**	1,748	**1,102**	1,325

Total retirement expense for the year ended December 31, 2020 under the defined contribution plan for the BPI Group and Parent Bank amounts to P150 million (2019 - P142 million) and P102 million (2019 - P98 million), respectively.

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Debt securities	**720**	663	**537**	506
Equity securities	**695**	962	**518**	730
Others	**63**	123	**47**	89
	1,478	1,748	**1,102**	1,325

The weighted average duration of the defined contribution retirement plan for the BPI Group and Parent Bank is 20.46 years (2019 - 20.83 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, 2020 and 2019 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, 2020, the net asset value of trust and fund assets managed by the BPI Group through BPI AMTC amounts to P854 billion (2019 - P731 billion).

As required by the General Banking Act, BPI AMTC has deposited government securities with the BSP valued at P426 million (2019 - P377 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

	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) 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%
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) 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%
Associates	1,486	1,903	
Ayala Group	(3,517)	13,287	
Key management personnel	694	1,238	
	(313)	26,174	

	2018		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	(81)	53	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 3.87% to 8.25% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 15 years. Additional information on DOSRI loans are discussed below.
Associates	190	387	
Ayala Group	5,026	32,579	
Other related parties	159	461	
	5,294	33,480	
Deposits from:			
Subsidiaries	373	8,722	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.22% to 0.31% Savings - 0.62% to 0.68% Time - 2.61% to 4.37%
Associates	38	417	
Ayala Group	12,263	16,804	
Key management personnel	162	543	
	12,836	26,486	

Parent

	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) 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%
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) 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%
Associates	1,473	1,887	
Ayala Group	(2,053)	12,921	
Key management personnel	642	1,105	
	1,145	25,628	

	2018		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	(81)	53	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 3.87% to 8.25% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 15 years. Additional information on DOSRI loans are discussed below.
Associates	190	387	
Ayala Group	5,026	32,579	
Key management personnel	-	-	
Other related parties	159	461	
	5,294	33,480	
Deposits from:			
Subsidiaries	388	8,631	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.21% to 0.30% Savings - 0.58% to 0.64% Time - 2.33 to 4.67%
Associates	55	414	
Ayala Group	10,446	14,974	
Key management personnel	103	463	
	10,992	24,482	

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

	2020	2019	2018
		(In Millions of Pesos)	
Interest income			
Subsidiaries	**21**	99	84
Associates	**19**	21	14
Ayala Group	**3,283**	2,867	1,346
Other related parties	**910**	44	20
	4,233	3,031	1,464
Other income			
Subsidiaries	**1,896**	2,260	1,801
Associates	**1,246**	1,511	1,222
Ayala Group	**656**	580	203
	3,798	4,351	3,226
Interest expense			
Subsidiaries	**21**	99	84
Associates	**3**	3	2
Ayala Group	**39**	128	119
Key management personnel	**5**	9	3
	68	239	208
Other expenses			
Subsidiaries	**1,766**	2,148	1,698
Associates	**-**	22	51
Ayala Group	**114**	435	501
	1,880	2,605	2,250
Retirement benefits			
Key management personnel	**56**	51	47
Salaries, allowances and other short-term benefits			
Key management personnel	**966**	871	800
Directors' remuneration	**126**	121	93

Parent

	2020	2019	2018
		(In Millions of Pesos)	
Interest income			
Subsidiaries	**-**	-	1
Associates	**19**	21	14
Ayala Group	**3,283**	2,867	1,346
Other related parties	**390**	44	20
	3,692	2,932	1,381
Other income			
Subsidiaries	**2,019**	2,157	1,620
Associates	**1,139**	1,272	1,035
Ayala Group	**287**	372	137
	3,445	3,801	2,792
Interest expense			
Subsidiaries	**21**	99	84
Associates	**3**	3	2
Ayala Group	**29**	123	98
Key management personnel	**4**	5	3
	57	230	187
Other expenses			
Subsidiaries	**9**	28	145
Ayala Group	**103**	435	501
	112	463	646
Retirement benefits			
Key management personnel	**52**	44	40
Salaries, allowances and other short-term benefits			
Key management personnel	**890**	751	697
Directors' remuneration	**98**	92	77

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	
	2020	2019	**2020**	2019
		(In Millions of Pesos)		
Outstanding DOSRI loans	**15,675**	10,026	**15,673**	10,024

As at December 31, 2020, allowance for credit losses amounting to P674 million (2019 - P12 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 Unit 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 dampen demand for auto and real estate collaterals and thus decrease market prices, so appropriate haircuts were applied on estimated recoveries from collaterals. These haircuts, however, did not increase the BPI Group's LGD as these were offset by the BPI Group's favorable collection experience.

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:

	Internal Credit Risk Rating System (ICRRS)		External Credit Rating by reputable rating agencies
Classifications	**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	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Corporate and SME loans, net	**1,143,340**	1,204,950	**1,120,784**	1,167,582
Retail loans, net	**264,073**	270,386	**54,287**	64,194
	1,407,413	1,475,336	**1,175,071**	1,231,776

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

	2020				2019			
	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	941,379	76,645	-	**1,018,024**	1,091,916	28,701	-	1,120,617
Special monitoring	47,630	69,579	-	**117,209**	45,963	41,416	-	87,379
Default	-	-	37,566	**37,566**	-	-	13,091	13,091
Gross amount	**989,009**	**146,224**	**37,566**	**1,172,799**	1,137,879	70,117	13,091	1,221,087
Loss allowance	(12,721)	(6,667)	(10,071)	**(29,459)**	(6,870)	(3,110)	(6,157)	(16,137)
Carrying amount	**976,288**	**139,557**	**27,495**	**1,143,340**	1,131,009	67,007	6,934	1,204,950

Retail loans

	2020				2019			
	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	221,206	28,821	-	**250,027**	251,736	10,638	-	262,374
Special monitoring	88	8,364	-	**8,452**	322	6,764	-	7,086
Default	-	-	22,893	**22,893**	-	-	10,763	10,763
Gross amount	**221,294**	**37,185**	**22,893**	**281,372**	252,058	17,402	10,763	280,223
Loss allowance	(4,282)	(3,530)	(9,487)	**(17,299)**	(3,236)	(1,780)	(4,821)	(9,837)
Carrying amount	**217,012**	**33,655**	**13,406**	**264,073**	248,822	15,622	5,942	270,386

Parent

Corporate and SME loans

	2020				2019			
	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	927,938	76,339	-	**1,004,277**	1,064,720	25,034	-	1,089,754
Special monitoring	45,033	65,005	-	**110,038**	42,297	39,478	-	81,775
Default	-	-	33,922	**33,922**	-	-	9,824	9,824
Gross amount	**972,971**	**141,344**	**33,922**	**1,148,237**	1,107,017	64,512	9,824	1,181,353
Loss allowance	(12,655)	(6,445)	(8,353)	**(27,453)**	(5,972)	(2,990)	(4,809)	(13,771)
Carrying amount	**960,316**	**134,899**	**25,569**	**1,120,784**	1,101,045	61,522	5,015	1,167,582

Retail loans

	2020				2019			
	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	49,855	5,729	-	**55,584**	59,732	4,277	-	64,009
Special monitoring	68	711	-	**779**	183	1,323	-	1,506
Default	-	-	5,267	**5,267**	-	-	3,513	3,513
Gross amount	**49,923**	**6,440**	**5,267**	**61,630**	59,915	5,600	3,513	69,028
Loss allowance	(1,391)	(1,546)	(4,406)	**(7,343)**	(808)	(941)	(3,085)	(4,834)
Carrying amount	**48,532**	**4,894**	**861**	**54,287**	59,107	4,659	428	64,194

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

Consolidated

	2020			2019		
	Corporate and SME loans	Retail loans	**Total**	Corporate and SME loans	Retail loans	Total
			(In Millions of Pesos)			
Current	139,146	21,790	**160,936**	68,517	5,999	74,516
Past due up to 30 days	6,573	7,468	**14,041**	505	4,749	5,254
Past due 31 - 90 days	505	7,927	**8,432**	1,095	6,654	7,749
Past due 91 - 180 days	-	-	**-**	-	-	-
Over 180 days	-	-	**-**	-	-	-
	146,224	**37,185**	**183,409**	70,117	17,402	87,519

Parent

	2020			2019		
	Corporate and SME loans	Retail loans	**Total**	Corporate and SME loans	Retail loans	Total
			(In Millions of Pesos)			
Current	134,433	4,533	**138,966**	63,673	3,494	67,167
Past due up to 30 days	6,536	1,196	**7,732**	400	783	1,183
Past due 31 - 90 days	375	711	**1,086**	439	1,323	1,762
Past due 91 - 180 days	-	-	**-**	-	-	-
Over 180 days	-	-	**-**	-	-	-
	141,344	**6,440**	**147,784**	64,512	5,600	70,112

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**	
	2020	2019	**2020**	2019
		(In Millions of Pesos)		
Due from BSP	**223,989**	207,845	**197,974**	181,815
Due from other banks	**40,155**	22,356	**36,605**	18,356
Interbank loans receivable and SPAR, net	**30,251**	22,570	**26,622**	18,364
Financial assets at FVTPL	**37,140**	24,032	**33,865**	17,688
Financial assets at FVOCI	**126,851**	51,079	**118,623**	47,009
Investment securities at amortized cost, net	**244,653**	275,105	**216,810**	252,006
	703,039	602,987	**630,499**	535,238

Credit quality of treasury and other investment securities, net

Consolidated

	2020				2019			
	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								
Due from BSP	223,989	-	-	**223,989**	207,845	-	-	207,845
Due from other banks	40,155	-	-	**40,155**	22,356	-	-	22,356
Interbank loans receivable and SPAR	30,245	-	-	**30,245**	22,561	-	-	22,561
Financial assets at FVTPL	37,140	-	-	**37,140**	24,032	-	-	24,032
Financial assets at FVOCI	126,851	-	-	**126,851**	51,079	-	-	51,079
Investment securities at amortized cost	244,666	-	-	**244,666**	275,105	-	-	275,105
Default								
Interbank loans receivable and SPAR	-	-	47	**47**	-	-	49	49
Gross carrying amount	**703,046**	-	47	**703,093**	602,978	-	49	603,027
Loss allowance	(13)	-	(41)	**(54)**	-	-	(40)	(40)
Carrying amount	**703,033**	-	6	**703,039**	602,978	-	9	602,987

Parent

	2020				2019			
	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								
Due from BSP	197,974	-	-	**197,974**	181,815	-	-	181,815
Due from other banks	36,605	-	-	**36,605**	18,356	-	-	18,356
Interbank loans receivable and SPAR	26,616	-	-	**26,616**	18,355	-	-	18,355
Financial assets at FVTPL	33,865	-	-	**33,865**	17,688	-	-	17,688
Financial assets at FVOCI	118,623	-	-	**118,623**	47,009	-	-	47,009
Investment securities at amortized cost	216,823	-	-	**216,823**	252,006	-	-	252,006
Default								
Interbank loans receivable and SPAR	-	-	47	**47**	-	-	49	49
Gross carrying amount	**630,506**	-	47	**630,553**	535,229	-	49	535,278
Loss allowance	(13)	-	(41)	**(54)**	-	-	(40)	(40)
Carrying amount	**630,493**	-	6	**630,499**	535,229	-	9	535,238

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	
	2020	2019	**2020**	2019
		(In Millions of Pesos)		
Accounts receivable, net	**1,662**	1,509	**1,342**	1,785
Rental deposits	**767**	734	**650**	623
Other accrued interest and fees receivable	**58**	264	**12**	209
Others	**61**	84	**34**	150
	2,548	2,591	**2,038**	2,767

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

	2020				2019			
	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	364,305	2,309	-	**366,614**	389,148	3,608	-	392,756
Special monitoring	10,152	-	-	**10,152**	11,417	-	-	11,417
Default	-	-	590	**590**	-	-	411	411
Gross amount	**374,457**	**2,309**	**590**	**377,356**	400,565	3,608	411	404,584
Loss allowance*	(760)	(119)	(80)	**(959)**	(506)	(104)	(40)	(650)
Carrying amount	**373,697**	**2,190**	**510**	**376,397**	400,059	3,504	371	403,934

**Included in "Miscellaneous liabilities" in Note 17*

Parent

	2020				2019			
	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	358,804	2,183	-	**360,987**	382,750	3,374	-	386,124
Special monitoring	9,934	-	-	**9,934**	11,417	-	-	11,417
Default	-	-	586	**586**	-	-	408	408
Gross amount	**368,738**	**2,183**	**586**	**371,507**	394,167	3,374	408	397,949
Loss allowance*	(738)	(110)	(79)	**(927)**	(488)	(92)	(39)	(619)
Carrying amount	**368,000**	**2,073**	**507**	**370,580**	393,679	3,282	369	397,330

**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

	2020			2019		
	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	37,566	10,071	**27,495**	13,091	6,157	6,934
Retail loans	22,893	9,487	**13,406**	10,763	4,821	5,942
Total credit-impaired assets	**60,459**	**19,558**	**40,901**	23,854	10,978	12,876
Fair value of collateral	**26,531**			11,662		

Parent

	2020			2019		
	Gross exposure	**Impairment allowance**	**Carrying amount**	Gross exposure	Impairment allowance	Carrying amount
			(In Millions of Pesos)			
Credit-impaired assets						
Corporate and SME loans	33,922	8,353	**25,569**	9,824	4,809	5,015
Retail loans	5,267	4,406	**861**	3,513	3,085	428
Total credit-impaired assets	**39,189**	**12,759**	**26,430**	13,337	7,894	5,443
Fair value of collateral	**12,493**			6,354		

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

As at December 31, 2020, the BPI Group's foreclosed collaterals have carrying amount of P2,971 million (2019 - P3,155 million). The related foreclosed collaterals have aggregate fair value of P9,494 million (2019 - P9,583 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 2020, the Parent Bank realized a gain of P53 million (2019 - P84 million) from disposals of foreclosed collaterals with book value of P148 million (2019 - P505 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

Corporate and SME loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(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 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(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 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
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 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
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**

Consolidated

Corporate and SME loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2019	**5,768**	**1,843**	**5,728**	**13,339**
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(2,072)	2,707	1,691	2,326
Transfer from Stage 2	6	(680)	291	(383)
Transfer from Stage 3	10	2	(177)	(165)
New financial assets originated	3,688	-	-	3,688
Financial assets derecognized during the year	(1,959)	(295)	(1,203)	(3,457)
Changes in assumptions and other movements in provision	1,521	(508)	70	1,083
	1,194	1,226	672	3,092
Write-offs and other movements	(92)	41	(243)	(294)
Loss allowance, at December 31, 2019	**6,870**	**3,110**	**6,157**	**16,137**

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2019	**4,114**	**1,405**	**4,044**	**9,563**
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(1,031)	1,418	2,456	2,843
Transfer from Stage 2	33	(716)	559	(124)
Transfer from Stage 3	3	33	(161)	(125)
New financial assets originated	1,070	-	-	1,070
Financial assets derecognized during the year	(308)	(115)	(339)	(762)
Changes in assumptions and other movements in provision	(613)	(190)	882	79
	(846)	430	3,397	2,981
Write-offs and other movements	(32)	(55)	(2,620)	(2,707)
Loss allowance, at December 31, 2019	**3,236**	**1,780**	**4,821**	**9,837**

Parent

Corporate and SME loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2019	**5,108**	**1,734**	**4,299**	**11,141**
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(1,846)	2,614	1,360	2,128
Transfer from Stage 2	3	(658)	251	(404)
Transfer from Stage 3	6	1	(88)	(81)
New financial assets originated	3,450	-	-	3,450
Financial assets derecognized during the period	(1,844)	(279)	(842)	(2,965)
Changes in assumptions and other movements in provision	1,205	(469)	23	759
	974	1,209	704	2,887
Write-offs and other movements	(110)	47	(194)	(257)
Loss allowance, at December 31, 2019	**5,972**	**2,990**	**4,809**	**13,771**

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2019	**1,839**	**482**	**2,505**	**4,826**
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(558)	877	1,749	2,068
Transfer from Stage 2	11	(286)	350	75
Transfer from Stage 3	-	1	(9)	(8)
New financial assets originated	217	-	-	217
Financial assets derecognized during the period	(36)	(41)	(205)	(282)
Changes in assumptions and other movements in provision	(667)	(41)	762	54
	(1,033)	510	2,647	2,124
Write-offs and other movements	2	(51)	(2,067)	(2,116)
Loss allowance, at December 31, 2019	**808**	**941**	**3,085**	**4,834**

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 30.3.2.2.

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, 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

At December 31, 2019

	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 (%)	6.3	6.6	6.6	7.2	0.0	4.2
Inflation rate (%)	3.0	3.1	2.7	2.4	11.0	5.9
BVAL 5Y (%)	4.5	4.7	4.0	4.3	11.2	10.3
US Treasury 5Y (%)	2.5	2.5	2.8	3.4	1.4	1.3
Exchange rate	52.300	54.874	51.550	52.856	56.970	62.653

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 P23 million as at December 31, 2020 from the baseline scenario (2019 - P554 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 P1,839 million as at December 31, 2020 (2019 - P1,312 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, 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**

Consolidated (December 31, 2019)

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Allowance	Total
			(In Millions of Pesos)				
Due from BSP	207,845	-	-	-	-	-	207,845
Due from other banks	22,356	-	-	-	-	-	22,356
Interbank loans receivable and SPAR	22,610	-	-	-	-	(40)	22,570
Financial assets at FVTPL	6,620	27	1	6	17,378	-	24,032
Financial assets at FVOCI	5,034	-	-	258	45,787	-	51,079
Investment securities at amortized cost	58,564	1,258	4,595	3,189	207,499	-	275,105
Loans and advances	162,335	124,841	229,745	365,874	618,515	(25,974)	1,475,336
Other financial assets	-	-	-	-	3,423	(832)	2,591
At December 31, 2019	485,364	126,126	234,341	369,327	892,602	(26,846)	2,080,914

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**

Parent Bank (December 31, 2019)

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Allowance	Total
				(In Millions of Pesos)			
Due from BSP	181,815	-	-	-	-	-	181,815
Due from other banks	18,356	-	-	-	-	-	18,356
Interbank loans receivable and SPAR	18,404	-	-	-	-	(40)	18,364
Financial assets at FVTPL	3,041	110	56	-	14,481	-	17,688
Financial assets at FVOCI	4,714	-	-	258	42,037	-	47,009
Investment securities at amortized cost	56,942	585	4,595	3,189	186,695	-	252,006
Loans and advances	161,348	68,302	226,235	222,217	572,279	(18,605)	1,231,776
Other financial assets	-	-	-	-	3,076	(309)	2,767
At December 31, 2019	444,620	68,997	230,886	225,664	818,568	(18,954)	1,769,781

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 is managed by the RMO guided by policies and procedures approved by the RMC and confirmed by the Executive Committee/BOD.

Market risk management is incumbent on the BOD through the RMC. Market risk management in BPI covers managing exposures to trading risk, foreign exchange risk, counterparty credit risk, interest rate risk of the banking book and liquidity risk. At the management level, the 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 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 the BPI Group's market-making activities. Non-trading portfolios include positions arising from core banking activities, which includes the BPI Group's retail and commercial banking assets and liabilities.

The BPI Group has derivatives exposures in interest rate swaps, currency swaps and structured notes as part of its trading and position taking activities.

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 stress testing (e.g., price risk, interest rate risk in the banking book and liquidity risk) 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	
	2020	2019	**2020**	2019
		(In Millions of Pesos)		
Local fixed-income	**63**	92	**62**	91
Foreign fixed-income	**68**	127	**58**	120
Foreign exchange	**52**	45	**5**	10
Derivatives	**100**	127	**100**	127
Equity securities	**31**	30	**-**	-
Mutual fund	**-**	5	**-**	-
	314	426	**225**	348

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

	2020			2019		
	USD	Others*	Total	USD	Others*	Total
			(In Millions of Pesos)			
Financial assets						
Cash and other cash items	2,440	410	**2,850**	3,060	285	3,345
Due from other banks	32,976	4,342	**37,318**	16,126	1,583	17,709
Interbank loans receivable and SPAR	9,353	-	**9,353**	813	132	945
Financial assets at FVTPL	8,009	1,154	**9,163**	9,149	178	9,327
Financial assets at FVOCI - debt securities	39,691	1,046	**40,737**	16,977	-	16,977
Investment securities at amortized cost	102,826	1,098	**103,924**	127,442	1,414	128,856
Loans and advances, net	120,709	10,406	**131,115**	149,012	7,621	156,633
Others financial assets	3,274	113	**3,387**	13,746	1,697	15,443
Total financial assets	**319,278**	**18,569**	**337,847**	336,325	12,910	349,235
Financial liabilities						
Deposit liabilities	238,496	11,323	**249,819**	228,362	6,130	234,492
Derivative financial liabilities	3,209	165	**3,374**	1,438	75	1,513
Bills payable	66,038	5,998	**72,036**	80,817	482	81,299
Due to BSP and other banks	868	-	**868**	942	-	942
Manager's checks and demand drafts outstanding	235	5	**240**	316	10	326
Other financial liabilities	3,960	125	**4,085**	17,749	1,668	19,417
Accounts payable	136	85	**221**	129	13	142
Total financial liabilities	**312,942**	**17,701**	**330,643**	329,753	8,378	338,131
Net on-balance sheet position	**6,336**	**868**	**7,204**	6,572	4,532	11,104

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

Parent Bank

	2020			2019		
	USD	Others*	Total	USD	Others*	Total
			(In Millions of Pesos)			
Financial assets						
Cash and other cash items	2,267	405	**2,672**	2,858	284	3,142
Due from other banks	31,912	3,396	**35,308**	14,556	1,553	16,109
Interbank loans receivable and SPAR	9,353	-	**9,353**	-	-	-
Financial assets at FVTPL	7,639	1,094	**8,733**	6,807	78	6,885
Financial assets at FVOCI - debt securities	36,001	1,027	**37,028**	15,030	-	15,030
Investment securities at amortized cost	90,870	136	**91,006**	117,006	145	117,151
Loans and advances, net	117,208	8,990	**126,198**	147,803	7,148	154,951
Others financial assets	8,417	145	**8,562**	13,445	1,566	15,011
Total financial assets	**303,667**	**15,193**	**318,860**	317,505	10,774	328,279
Financial liabilities						
Deposit liabilities	224,134	9,526	**233,660**	214,389	5,965	220,354
Derivative financial liabilities	3,209	165	**3,374**	1,438	75	1,513
Bills payable	64,567	5,415	**69,982**	77,749	-	77,749
Due to BSP and other banks	868	-	**868**	942	-	942
Manager's checks and demand drafts outstanding	232	5	**237**	314	10	324
Other financial liabilities	3,797	8,874	**12,671**	17,817	1,588	19,405
Accounts payable	60	3	**63**	121	12	133
Total financial liabilities	**296,867**	**23,988**	**320,855**	312,770	7,650	320,420
Net on-balance sheet position	**6,800**	**(8,795)**	**(1,995)**	4,735	3,124	7,859

**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)	
2020	**+/- 2.29%**	**-/+ 589**	**-/+ 656**
2019	+/- 1.24%	-/+ 81	-/+ 59

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 arises from the BPI Group's core banking activities. The BPI Group is subject 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.

The BPI Group employs two methods to measure the potential impact of interest rate risk: (i) one that focuses on the economic value of the banking book, and (ii) one that focuses on net interest earnings. The RMC sets limits on the two interest rate risk metrics which are monitored monthly by the Market Risk Division of the RMO.

Interest rate risk in the banking book

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. 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 has established comprehensive risk management policies, procedures, risk limits structures and employs risk measurement models supported by a robust risk management system.

Interest rate exposures from core banking activities are measured using the following earnings-based and economic value-based models: (a) Earnings-at-Risk (EaR) measures the potential deterioration in net interest income over the next 12 months due to adverse movements in interest rates, and (b) Balance Sheet Value-at-Risk (BS VaR) measures the impact on the economic value of the future cash flows in the banking book due to changes in interest rates.

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 rate moved against the BPI Group's position. As of December 31, 2020, the net interest income impact of movement in interest rates amounts to P5,174 million (2019 - P2,424 million) for the whole BPI Group and P4,614 million (2019 - P1,986 million) for the Parent Bank.

Balance Sheet Value-at-Risk (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 based on the current interest rates. As at December 31, the average BSVaR, computed on a monthly basis, for the banking book stood at P21,251 million (2019 - P13,754 million) for the whole BPI Group and P17,397 million (2019 - P9,530 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 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, 2020)

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
		(In Millions of Pesos)			
As at December 31, 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**

Consolidated (December 31, 2019)

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2019					
Financial Assets					
Cash and other cash items	-	-	-	47,256	47,256
Due from BSP	-	-	-	207,845	207,845
Due from other banks	-	-	-	22,356	22,356
Interbank loans receivable and SPAR	-	-	-	22,570	22,570
Financial assets at FVTPL	334	472	1,050	22,176	24,032
Financial assets at FVOCI	-	-	-	51,079	51,079
Investment securities at amortized cost	-	-	-	275,105	275,105
Loans and advances, net	890,934	136,779	311,924	135,699	1,475,336
Other financial assets	-	-	-	2,591	2,591
Total financial assets	891,268	137,251	312,974	786,677	2,128,170
Financial Liabilities					
Deposit liabilities	796,447	359,265	539,631	-	1,695,343
Derivative financial liabilities	81	397	936	1,463	2,877
Bills payable and other borrowed funds	-	15,415	-	135,422	150,837
Due to BSP and other banks	-	-	-	2,946	2,946
Manager's checks and demand drafts outstanding	-	-	-	8,299	8,299
Other financial liabilities	-	-	-	9,392	9,392
Total financial liabilities	796,528	375,077	540,567	157,522	1,869,694
Total interest gap	94,740	(237,826)	(227,593)	629,155	258,476

Parent Bank (December 31, 2020)

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 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**

Parent Bank (December 31, 2019)

	Repricing Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
	(In Millions of Pesos)				
As at December 31, 2019					
Financial Assets					
Cash and other cash items	-	-	-	45,982	45,982
Due from BSP	-	-	-	181,815	181,815
Due from other banks	-	-	-	18,356	18,356
Interbank loans receivable and SPAR	-	-	-	18,364	18,364
Financial assets at FVTPL	334	472	1,050	15,832	17,688
Financial assets at FVOCI	-	-	-	47,009	47,009
Investment securities at amortized cost	-	-	-	252,006	252,006
Loans and advances, net	824,718	90,806	257,603	58,649	1,231,776
Other financial assets	-	-	-	2,767	2,767
Total financial assets	825,052	91,278	258,653	640,780	1,815,763
Financial Liabilities					
Deposit liabilities	711,910	301,381	443,167	-	1,456,458
Derivative financial liabilities	81	397	936	1,463	2,877
Bills payable and other borrowed funds	-	15,118	-	111,411	126,529
Due to BSP and other banks	-	-	-	2,946	2,946
Manager's checks and demand drafts outstanding	-	-	-	6,421	6,421
Other financial liabilities	-	-	-	4,801	4,801
Total financial liabilities	711,991	316,896	444,103	127,042	1,600,032
Total interest gap	113,061	(225,618)	(185,450)	513,738	215,731

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**	
	2020	2019	**2020**	2019
Liquidity coverage ratio	**231.86%**	167.06%	**240.40%**	168.13%
Net stable funding ratio	**153.58%**	130.74%	**153.13%**	122.65%
Leverage ratio	**10.92%**	10.70%	**10.61%**	10.06%
Total exposure measure	**2,262,656**	2,224,550	**1,924,061**	1,887,364

The improvement in the Parent Bank's LCR in 2020 was primarily driven by the increase in reportable amount of HQLA as excess liquidity and funding obtained by the Parent Bank were deployed to government securities classified as unencumbered and of high quality under LCR rules. Cash, reserves and due from BSP make up 46% of the total stock of HQLA for the year ended December 31, 2020.

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, 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	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**

Consolidated (December 31, 2019)

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2019				
Financial Assets				
Cash and other cash items	47,256	-	-	47,256
Due from BSP	207,845	-	-	207,845
Due from other banks	22,356	-	-	22,356
Interbank loans receivable and SPAR	22,551	17	114	22,682
Financial assets at FVTPL	6,862	1,558	16,756	25,176
Financial assets at FVOCI	10,575	8,161	47,820	66,556
Investment securities at amortized cost	46,278	84,560	221,296	352,134
Loans and advances, net	656,088	267,511	581,062	1,504,661
Other financial assets	2,591	-	-	2,591
Total financial assets	1,022,402	361,807	867,048	2,251,257
Financial Liabilities				
Deposit liabilities	796,447	359,265	539,631	1,695,343
Bills payable and other borrowed funds	49,564	57,590	46,207	153,361
Due to BSP and other banks	2,946	-	-	2,946
Manager's checks and demand drafts outstanding	8,299	-	-	8,299
Lease liabilities	1,976	3,470	4,719	10,165
Other financial liabilities	9,392	-	-	9,392
Total financial liabilities	868,624	420,325	590,557	1,879,506
Total maturity gap	153,778	(58,518)	276,491	371,751

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**

Parent Bank (December 31, 2019)

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2019				
Financial Assets				
Cash and other cash items	45,982	-	-	45,982
Due from BSP	181,815	-	-	181,815
Due from other banks	18,356	-	-	18,356
Interbank loans receivable and SPAR	18,245	17	114	18,376
Financial assets at FVTPL	926	1,522	15,612	18,060
Financial assets at FVOCI	5,023	8,074	45,980	59,077
Investment securities at amortized cost	25,347	76,282	209,930	311,559
Loans and advances, net	605,833	196,549	449,524	1,251,906
Other financial assets, net	2,767	-	-	2,767
Total financial assets	904,294	282,444	721,160	1,907,898
Financial Liabilities				
Deposit liabilities	711,910	301,381	443,167	1,456,458
Bills payable and other borrowed funds	36,025	45,421	45,988	127,434
Due to BSP and other banks	2,946	-	-	2,946
Manager's checks and demand drafts outstanding	6,421	-	-	6,421
Lease liabilities	1,589	2,707	4,059	8,355
Other financial liabilities	4,801	-	-	4,801
Total financial liabilities	763,692	349,509	493,214	1,606,415
Total maturity gap	140,602	(67,065)	227,946	301,483

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
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)**

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2019		(In Millions of Pesos)		
Interest rate swap contracts - held for trading				
- Inflow	334	472	1,050	1,856
- Outflow	(81)	(397)	(936)	(1,414)
- Net inflow	253	75	114	442
Non-deliverable forwards and swaps - held for trading				
- Inflow	22	-	-	22
- Outflow	(107)	(484)	(356)	(947)
- Net outflow	(85)	(484)	(356)	(925)

(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
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**

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2019		(In Millions of Pesos)		
Foreign exchange derivatives - held for trading				
- Inflow	527	509	8	1,044
- Outflow	(451)	(2)	-	(453)
- Net inflow	76	507	8	591
Foreign exchange derivatives - held for hedging				
- Inflow	-	-	-	-
- Outflow	-	(63)	-	(63)
- Net outflow	-	(63)	-	(63)

Parent Bank

	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**

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2019		(In Millions of Pesos)		
Foreign exchange derivatives - held for trading				
- Inflow	527	509	8	1,044
- Outflow	(451)	(2)	-	(453)
- Net inflow	76	507	8	591
Foreign exchange derivatives - held for hedging				
- Inflow	-	-	-	-
- Outflow	-	(63)	-	(63)
- Net outflow	-	(63)	-	(63)

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, 2020)

	Carrying Amount	Fair value Level 1	Level 2	**Total**
Recurring measurements:			(In Millions of Pesos)	
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**
Non-recurring measurements				
Assets held for sale, net	2,971	-	9,494	**9,494**

Consolidated (December 31, 2019)

	Carrying Amount	Fair value Level 1	Level 2	Total
Recurring measurements:			(In Millions of Pesos)	
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	2,933	-	2,933	2,933
Trading assets				
- Debt securities	21,099	17,562	3,537	21,099
- Equity securities	73	73	-	73
Financial assets at FVOCI				
- Debt securities	51,079	50,995	84	51,079
- Equity securities	2,826	1,738	1,088	2,826
	78,010	70,368	7,642	78,010
Financial liabilities				
Derivative financial liabilities	2,877	-	2,877	2,877
Non-recurring measurements:				
Assets held for sale, net	3,155	-	9,583	9,583

Parent Bank (December 31, 2020)

	Carrying Amount	Fair value Level 1	Level 2	**Total**
Recurring measurements			(In Millions of Pesos)	
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	4,716	-	4,716	**4,716**
Trading securities - 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**
Non-recurring measurements				
Assets held for sale, net	357	-	3,439	**3,439**

Parent Bank (December 31, 2019)

	Carrying Amount	Fair value Level 1	Level 2	Total
Recurring measurements			(In Millions of Pesos)	
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	2,923	-	2,923	2,923
Trading securities - debt securities	14,765	14,765	-	14,765
Financial assets at FVOCI				
- Debt securities	47,009	47,009	-	47,009
- Equity securities	1,311	972	339	1,311
	66,008	62,746	3,262	66,008
Financial liabilities				
Derivative financial liabilities	2,877	-	2,877	2,877
Non-recurring measurements				
Assets held for sale, net	342	-	3,296	3,296

There are no assets and liabilities whose fair values fall under the Level 3 category as at December 31, 2020 and 2019. Likewise, there were no transfers between Level 1 and Level 2 during the years ended December 31, 2020 and 2019.

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

Consolidated (December 31, 2020)

	Carrying Amount	Fair value		
		Level 1	Level 2	**Total**
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**

Consolidated (December 31, 2019)

	Carrying Amount	Fair value		
		Level 1	Level 2	Total
Financial assets				
Cash and other cash items	47,256	-	47,256	47,256
Due from BSP	207,845	-	207,845	207,845
Due from other banks	22,356	-	22,356	22,356
Interbank loans receivable and SPAR, net	22,570	-	22,610	22,610
Investment securities at amortized cost, net	275,105	276,454	-	276,454
Loans and advances, net	1,475,336	-	1,480,074	1,480,074
Other financial assets	2,591	-	2,591	2,591
Financial liabilities				
Deposit liabilities	1,695,343	-	1,678,607	1,678,607
Bills payable and other borrowed funds	150,837	84,973	65,461	150,434
Due to BSP and other banks	2,946	-	2,946	2,946
Manager's checks and demand drafts outstanding	8,299	-	8,299	8,299
Other financial liabilities	9,392	-	9,392	9,392
Non-financial assets				
Investment properties	155		638	638

Parent Bank (December 31, 2020)

	Carrying Amount	Fair value Level 1	Level 2	Total
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**

Parent Bank (December 31, 2019)

	Carrying Amount	Fair value Level 1	Level 2	Total
Financial assets				
Cash and other cash items	45,982	-	45,982	45,982
Due from BSP	181,815	-	181,815	181,815
Due from other banks	18,356	-	18,356	18,356
Interbank loans receivable and SPAR, net	18,346	-	18,405	18,405
Investment securities at amortized cost, net	252,006	252,964	-	252,964
Loans and advances, net	1,231,776	-	1,230,551	1,230,551
Other financial assets	2,767	-	2,767	2,767
Financial liabilities				
Deposit liabilities	1,456,458	-	1,450,164	1,450,164
Bills payable and other borrowed funds	126,529	75,463	50,663	126,126
Due to BSP and other banks	2,946	-	2,946	2,946
Manager's checks and demand drafts outstanding	6,421	-	6,421	6,421
Other financial liabilities	4,801	-	4,801	4,801
Non-financial assets				
Investment properties	143	-	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% 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	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Tier 1 capital	**277,830**	262,873	**277,755**	262,239
Tier 2 capital	**13,593**	14,079	**11,835**	11,500
Gross qualifying capital	**291,423**	276,952	**289,590**	273,739
Less: Regulatory adjustments/required deductions	**30,760**	24,810	**73,557**	72,400
Total qualifying capital	**260,663**	252,142	**216,033**	201,339
Risk weighted assets	**1,527,572**	1,568,855	**1,309,660**	1,347,976
CAR (%)	**17.06**	16.07	**16.50**	14.94
CET1 (%)	**16.17**	15.17	**15.59**	14.08

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, 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 events

BPI and BFB Merger

On January 22, 2021, BPI announced that its BOD had approved on January 21, 2021, subject to shareholders and regulatory approvals, the plan to merge with BFB, its wholly owned thrift bank subsidiary, with BPI as the surviving entity. 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.

The BOD of BPI, in its meeting held on February 24, 2021, approved the following significant terms and conditions of the planned merger transaction, subject to shareholders and regulatory approvals:

- BFB shall be merged with BPI, with BPI as the surviving corporation;
- The merger shall become effective upon the latter of (a) BSP approval and SEC issuance of the Certificate of Merger, and (b) January 1, 2022;
- Prior to the effective date, BPI and BFB shall conduct their respective business in a manner substantially the same as previously conducted;
- Any fees and costs related to the merger shall be borne by BPI; and
- The basis of determining the exchange ratio.

Increase in Authorized Share Capital

In its meeting held on February 24, 2021, the BOD of BPI approved the proposal, subject to shareholders and regulatory approvals, to increase its authorized share capital, particularly the common share from 4.9 billion to 5 billion shares, and the corresponding amendment to the Parent Bank's Articles of Incorporation.

Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

The CREATE bill which seeks to lower corporate income tax rates and to rationalize fiscal incentives had been approved by the House of Representatives on September 13, 2019 and by the Senate on the third and final reading on November 26, 2020. The bill was approved by the Bicameral Conference Committee on February 4, 2021 but has yet to be signed into law by the President of the Philippines. Under the CREATE bill, effective July 1, 2020, the more significant changes are as follows:

- Reduction of corporate income tax (CIT) rate to 20% applicable to domestic corporations with total net taxable income not exceeding P5,000,000 and with total assets not exceeding P100 Million (excluding land on which the business entity's office, plant and equipment are situated);
- Reduction of CIT rate to 25% shall be applicable to all other corporations subject to regular CIT; and,
- Minimum Corporate Income Tax (MCIT) rate shall also be amended to 1%, instead of 2%, for the period beginning July 1, 2020 until June 30, 2023.

Since the CREATE bill has not been substantively enacted by the time the BPI Group's consolidated financial statements were authorized for release, no disclosures were made in the BPI Group's consolidated financial statements to reflect the potential impact of the proposed changes in corporate income tax rate.

Financial Institutions Strategic Transfer (FIST) Law

On February 16, 2021, Republic Act (RA) No. 11523, otherwise known as FIST, was signed into law. The law takes effect immediately after its publication in the Official Gazette and a newspaper in general circulation. Under this law, financial institutions' strategic transfer corporations (FISTC) will have the powers to invest in or acquire the non-performing assets (NPA) of financial institutions and engaged third parties to manage, operate, collect and dispose of NPAs acquired from a financial institution. The transfer of NPAs to a FISTC will be exempt from documentary stamp tax, capital gains tax, creditable withholding taxes and value-added tax. The BPI Group is still in the process of evaluating how they can avail the benefit from the provisions of the FIST Law.

Note 30 - 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.

30.1 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 (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

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

The financial statements comprise the 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)

30.2 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 and the revised Conceptual Framework effective January 1, 2020:

- Amendments to PAS 1, *'Presentation of Financial Statements'*, and PAS 8, *'Accounting Policies, Changes in Accounting Estimates and Errors'*

  The amendments clarify that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and; the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

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

- Amendments to PFRS 3, *'Business Combinations'*

  The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

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

- Amendments to PFRS 7, *'Financial Instruments: Disclosures'*, and PFRS 9, *'Financial Instruments'*

  The amendments provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

  In assessing the hedge effectiveness of the cash flow hedges directly affected by the interest rate benchmark reform, the BPI Group assumed that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

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

- Revised Conceptual Framework for Financial Reporting

  The revised Framework includes the following changes:
  - increasing the prominence of stewardship in the objective of financial reporting;
  - reinstating prudence as a component of neutrality;
  - defining a reporting entity, which may be a legal entity, or a portion of an entity;
  - revising the definitions of an asset and a liability;
  - removing the probability threshold for recognition and adding guidance on derecognition;
  - adding guidance on different measurement basis; and
  - stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

  No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

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

- Amendments 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.

  The impact of the amendments to PFRS 16 in the financial statements of the BPI Group is summarized in Note 20.

(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, 2020 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 Insurance Commission, 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 Insurance Commission (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.

- Interest Rate Benchmark Reform - Amendments to PFRS 9, *"Financial Instruments"*, PAS 39, *"Financial Instruments: Recognition and Measurement"*, 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, 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. However, additional ineffectiveness might need to be recorded.

The BPI Group is currently in the process of assessing the impact of this amendment.

Likewise, the following amendments to existing standards are not mandatory for December 31, 2020 reporting period and have not been early adopted by the BPI Group:

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

  The amendments to PAS 1 clarify that liabilities are classified as either current or non-current, 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).

- 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.*

- 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.

- Annual Improvements to PFRS Standards 2018-2020

  The following improvements were finalized in May 2020:
  1. PFRS 9, *'Financial Instruments'*, clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
  2. 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.

30.3 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.

30.3.1 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 30.3.2.2) 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 fair value through profit or loss, 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 fair value through profit or loss 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 30.3.2.1 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.

30.3.2 Financial assets

30.3.2.1 Classification and subsequent measurement

The BPI Group classifies its financial assets in the following measurement categories: at fair value through profit or loss, fair value through other comprehensive income 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 fair value through profit or loss, 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.

- *Fair value through other comprehensive income (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 fair value through other comprehensive income (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.

- *Fair value through profit or loss (FVTPL)*
  Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statements of income within 'Trading gain on securities' 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 fair value through profit or loss. 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 fair value through profit or loss.

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 fair value through profit or loss, except where the BPI Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. 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 income' when the BPI Group's right to receive payments is established. Gains and losses on equity investments at fair value through profit or loss are included in the 'Trading gain on securities' in the statements of income.

30.3.2.2 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.

PFRS 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 PFRS 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, 2020 and 2019.

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.

30.3.3 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, is treated in line with BPI Group's policies discussed above.

30.3.4 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.

30.3.5 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.

30.3.6 Financial liabilities

30.3.6.1 Classification of financial liabilities

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

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

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

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

(b) Other liabilities measured at amortized cost

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

30.3.6.2 Subsequent measurement and derecognition

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

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.

30.3.7 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.

30.3.8 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 "Trading gain on securities".

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.

As disclosed in Note 7, the BPI Group has existing cash flow hedge activity. 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.

30.3.8.1 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 fair value through profit or loss.

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 fair value through profit or loss.

30.3.9 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, 2020 and 2019.

30.3.10 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.

30.3.11 Dividend income

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

30.3.12 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, 2020 and 2019, there are no financial assets and liabilities presented at net amounts due to offsetting.

30.3.13 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.

30.3.14 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.

30.4 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.

30.5 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.

30.6 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).

30.7 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, 2020 and 2019.

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.

30.8 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.

30.9 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.

30.10 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.

30.11 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.

30.12 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.

30.13 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, 2020 and 2019.

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.

30.14 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.

30.15 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.

30.16 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 fair value through profit or loss, are reported as part of the fair value gain or loss recognized under "Trading gain/loss on securities" 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.

30.17 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.

30.18 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.

30.19 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.

30.20 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.

30.21 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.

30.22 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.

30.23 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.

30.24 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).

30.25 Leases

30.25.1 BPI Group is the lessee

Until December 31, 2018, leases of bank premises, furniture and fixtures and equipment were classified as either finance leases or operating leases. From January 1, 2019, the BPI Group recognizes leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

From January 1, 2019 (PFRS 16)

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.

In applying PFRS 16 for the first time, the BPI Group has used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease
- apply the provisions of PFRS 16 to contracts that were previously identified as leases applying PAS 7, *'Statement of cash flows'* and IFRIC 4, *'Determining whether an arrangement contains a lease'*.

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.

Accounting policies prior to January 1, 2019 (PAS 17)

Operating lease

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

Finance lease

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

30.25.2 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.

30.26 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.

30.27 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.

30.28 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.

30.29 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 31 - 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	
	2020	2019	**2020**	2019
Return on average equity				
- Daily average[1]	**7.70**	10.97	**10.81**	12.51
- Simple average[2]	**7.79**	11.12	**11.00**	12.62
Return on average assets				
- Daily average[3]	**0.98**	1.38	**1.33**	1.50
- Simple average[4]	**0.96**	1.34	**1.31**	1.45
Net interest margin				
- Daily average[5]	**3.49**	3.35	**3.31**	3.18
- Simple average[6]	**3.45**	3.26	**3.26**	3.08

[1]Net 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, 2020 and 2019.
[2]Net 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, 2020 and 2019.
[3]Net 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, 2020 and 2019.
[4]Net 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, 2020 and 2019.
[5]Net 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, 2020 and 2019.
[6]Net 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, 2020 and 2019.

(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, 2020 and 2019.

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	
	2020	2019	**2020**	2019
Real estate, renting and other related activities	**25.42**	24.37	**18.04**	17.77
Manufacturing	**14.97**	15.30	**17.79**	18.09
Wholesale and retail trade	**10.97**	11.35	**12.18**	12.61
Consumer	**8.01**	8.32	**5.12**	5.46
Financial institutions	**8.88**	10.81	**10.57**	12.90
Agriculture and forestry	**2.53**	2.87	**3.01**	3.40
Others	**29.22**	26.98	**33.29**	29.77
	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	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	**257,311**	278,099	**132,600**	138,607
Chattel mortgage	**51,821**	57,037	**8**	10
Others	**203,629**	148,385	**201,013**	146,038
	512,761	483,521	**333,621**	284,655
Unsecured loans	**932,434**	1,008,129	**870,066**	958,768
	1,445,195	1,491,650	**1,203,687**	1,243,423

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 are as follows:

Consolidated

	2020			2019		
	Performing	Non-performing	**Total**	Performing	Non-performing	Total
			(In Millions of Pesos)			
Corporate loans	984,160	12,990	**997,150**	1,130,219	10,941	1,141,160
Credit cards	51,340	5,453	**56,793**	61,671	3,537	65,208
Other retail loans	169,409	20,310	**189,719**	189,581	10,357	199,938
	1,204,909	38,753	**1,243,662**	1,381,471	24,835	1,406,306
Allowance for probable losses	(16,962)	(14,483)	**(31,445)**	(10,072)	(10,516)	(20,588)
Net carrying amount	**1,187,947**	**24,270**	**1,212,217**	1,371,399	14,319	1,385,718

**Amounts exclude accrued interest receivables*

Parent

	2020			2019		
	Performing	Non-performing	**Total**	Performing	Non-performing	Total
			(In Millions of Pesos)			
Corporate loans	968,188	10,507	**978,695**	1,100,534	8,487	1,109,021
Credit cards	49,916	5,096	**55,012**	59,906	3,381	63,287
Other retail loans	7	430	**437**	9	306	315
	1,018,111	16,033	**1,034,144**	1,160,449	12,174	1,172,623
Allowance for probable losses	(14,026)	(9,470)	**(23,496)**	(6,765)	(7,688)	(14,453)
Net carrying amount	**1,004,085**	**6,563**	**1,010,648**	1,153,684	4,486	1,158,170

**Amounts exclude accrued interest receivables*

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	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Loans and advances from:				
Subsidiaries	**189**	58	**-**	58
Associates	**509**	350	**509**	350
Ayala Group	**76,509**	59,885	**71,123**	59,885
Other related parties	**24,160**	736	**7,569**	736

Details of DOSRI loans are as follows:

	Consolidated		Parent	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Outstanding DOSRI loans	**15,675**	10,026	**15,673**	10,024

	In percentages (%)			
	Consolidated		Parent	
	2020	2019	**2020**	2019
% to total outstanding loans and advances	**1.08**	0.67	**1.30**	0.81
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	**3.20**	17.30	**3.20**	17.30
Past due DOSRI loans	**0.00**	0.01	**0.00**	0.01
Non-performing DOSRI loans	**0.00**	-	**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, 2020 and 2019.

(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 in accordance with the agreed financing programs. Loans and advances arising from these financing programs serve as collateral for this liability (Note 10).

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

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
	(In Millions of Pesos)			
Undrawn loan commitments	**352,844**	376,179	**346,995**	369,544
Unused letters of credit	**24,512**	28,405	**24,512**	28,405
Gross carrying amount	**377,356**	404,584	**371,507**	397,949
Loss allowance	**(959)**	(650)	**(927)**	(619)
Carrying amount	**376,397**	403,934	**370,580**	397,330

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 32 - Supplementary information required by the Bureau of Internal Revenue

On December 28, 2010, Revenue Regulations (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by 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, 2020 consist of:

	Amount (In Millions of Pesos)
Deposit and loan documents	6,601
Trade finance documents	490
Mortgage documents	432
Shares of stocks	1
Others	5
	7,529

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2020 consist of:

	Amount		
	Paid	Accrued	Total
	(In Millions of Pesos)		
Income taxes withheld on compensation	1,842	207	2,049
Withholding tax on withdrawal from decedent's account	11	3	14
Final income taxes withheld on interest on deposits and yield on deposit substitutes	2,388	167	2,555
Final income taxes withheld on income payment	887	6	893
Creditable income taxes withheld (expanded)	346	53	399
Fringe benefit tax	107	29	136
VAT withholding tax	53	2	55
	5,634	467	6,101

(iii) All other local and national taxes

All other local and national taxes paid/accrued for the year ended December 31, 2020 consist of:

	Amount		
(In Millions of Pesos)	Paid	Accrued	Total
Gross receipts tax	4,581	384	4,965
Real property tax	112	-	112
Municipal taxes	307	-	307
Others	14	-	14
	5,014	384	5,398

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. Management is of the opinion that the ultimate outcome of the said cases will not have a material impact on the financial statements of the Parent Bank.

Bank of the Philippine Islands
Financial Indicators
As at December 31, 2020 and 2019

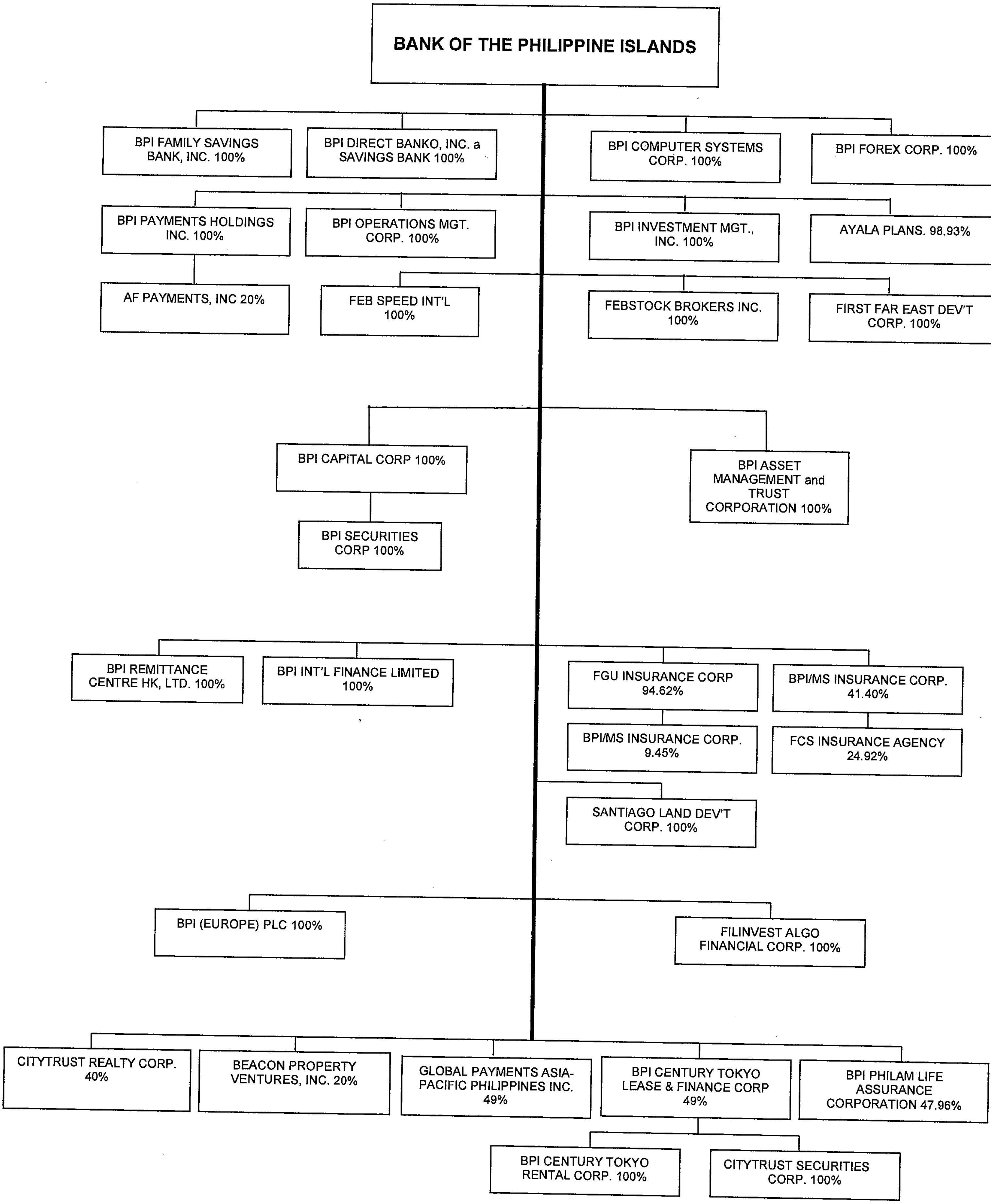
Ratio	Formula		Current Year	Prior Year
			in percentage	
Liquidity ratio	Total current assets divided by total current liabilities		62.68	60.31
	Total current assets	1,075,710		
	Divided by: Total deposits	1,716,177		
	Liquidity ratio	0.6268		
Debt-to-equity ratio	Total liabilities (Bills payable and Bonds payable) divided by total equity		54.30	55.95
	Total liabilities (Bills payable and Bonds payable)	151,947		
	Divided by: Total equity	279,835		
	Debt-to-equity ratio	0.5430		
Asset-to-equity ratio	Total assets divided by total equity		798.13	817.96
	Total assets	2,233,443		
	Divided by: Total equity	279,835		
	Asset-to-equity ratio	7.9813		
Interest rate coverage ratio	Earnings before interest expense, income taxes, depreciation, and amortization		231.35	230.53
	EBITDA	55,625		
	Divided by: Total interest expense	24,044		
	Interest rate coverage ratio	2.3135		
Return on equity	Net income divided by daily average equity		7.70	10.97
	Net income	21,409		
	Divided by: Daily average equity	278,183		
	Return on equity	0.0770		
Return on assets	Net income divided by daily average assets		0.98	1.38
	Net income	21,409		
	Divided by: Daily average assets	2,188,847		
	Return on assets	0.0098		

Net interest margin (NIM)	Net interest income (return on investment less interest expense) divided by daily average net interest bearing assets Net interest income 72,264 Divided by: Daily average net interest bearing assets 2,070,316 NIM 0.0349	3.49	3.35
Other ratios:			
Average assets to average equity	Daily average assets divided by daily average equity Daily average assets 2,188,847 Divided by: Daily average equity 278,183 Average assets to average equity 7.8684	786.84	794.19
Net interest to average assets (NRFF)	Net interest income divided by daily average assets Net interest income 72,264 Divided by: Daily average assets 2,188,847 NRFF 0.0330	3.30	3.17
Cost to income ratio	Total operating expense divided by total income (Net interest income and Other income) Total operating expense 48,154 Divided by: Total income (Net interest income and Other income) 101,923 Cost to income ratio 0.4725	47.25	52.40
Cost to asset ratio	Total operating expense divided by daily average assets Total operating expense 48,154 Divided by: Daily average assets 2,188,847 Cost to asset ratio 0.0220	2.20	2.34
Capital to assets ratio	Total equity divided by total assets Total equity 279,835 Divided by: Total assets 2,233,443 Capital to assets ratio 0.1253	12.53	12.23

Bank of the Philippine Islands
14/F Ayala North Exchange, Tower I
6796 Ayala Avenue corner Salcedo Street,
Legaspi Village, Makati City Philippines

Reconciliation of the Parent Bank's Retained Earnings Available for Dividend Declaration
As at and for the year ended December 31, 2020
(In Millions of Pesos)

Unappropriated Retained Earnings, based on audited financial statements, beginning of the year			**94,226**
Add:	**Net income actually earned/realized during the period**	24,611	
Less:	**Non-actual/unrealized income net of tax:**		
	• Equity in net income of associate/joint venture	-	
	• Unrealized foreign exchange gain (after tax) except those attributable to Cash and cash equivalents	87	
	• Unrealized actuarial gain	-	
	• Fair value adjustment (mark-to-market gains)	818	
	• Fair value adjustment of investment property resulting to gain	-	
	• Adjustment due to deviation from PFRS (gain)	-	
	• Other unrealized gains or adjustments to retained earnings as a result of certain transactions accounted for under PFRS	-	
	Subtotal	905	
Add:	**Non-actual losses, net of tax:**		
	• Depreciation on revaluation increment (after tax)	-	
	• Adjustment due to deviation from PFRS/GAAP - loss	-	
	• Loss on fair value adjustment of investment property (after tax)	-	
	Subtotal	-	
	Net income actually earned during the year		**23,706**
Add (Less):	Dividend declarations during the year	(8,124)	
	Appropriations of Retained Earnings during the year	-	
	Reversals of appropriations	4,739	
	Effects of prior period adjustments	1	
	Treasury shares	-	
	Subtotal		**(3,384)**
Unappropriated retained earnings available for dividend distribution, end of the year			**114,548**


BANK OF THE PHILIPPINE ISLANDS
BPI FAMILY SAVINGS BANK, INC. 100%
BPI DIRECT BANKO, INC. a SAVINGS BANK 100%
BPI COMPUTER SYSTEMS CORP. 100%
BPI FOREX CORP. 100%
BPI PAYMENTS HOLDINGS INC. 100%
BPI OPERATIONS MGT. CORP. 100%
BPI INVESTMENT MGT., INC. 100%
AYALA PLANS. 98.93%
AF PAYMENTS, INC 20%
FEB SPEED INT'L 100%
FEBSTOCK BROKERS INC. 100%
FIRST FAR EAST DEV'T CORP. 100%
BPI CAPITAL CORP 100%
BPI ASSET MANAGEMENT and TRUST CORPORATION 100%
BPI SECURITIES CORP 100%
BPI REMITTANCE CENTRE HK, LTD. 100%
BPI INT'L FINANCE LIMITED 100%
FGU INSURANCE CORP 94.62%
BPI/MS INSURANCE CORP. 41.40%
BPI/MS INSURANCE CORP. 9.45%
FCS INSURANCE AGENCY 24.92%
SANTIAGO LAND DEV'T CORP. 100%
BPI (EUROPE) PLC 100%
FILINVEST ALGO FINANCIAL CORP. 100%
CITYTRUST REALTY CORP. 40%
BEACON PROPERTY VENTURES, INC. 20%
GLOBAL PAYMENTS ASIA-PACIFIC PHILIPPINES INC. 49%
BPI CENTURY TOKYO LEASE & FINANCE CORP 49%
BPI PHILAM LIFE ASSURANCE CORPORATION 47.96%
BPI CENTURY TOKYO RENTAL CORP. 100%
CITYTRUST SECURITIES CORP. 100%

BANK OF THE PHILIPPINE ISLANDS
As at December 31, 2020
(in Millions of Pesos)

Schedule A - Financial Assets

	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income received and accrued
Due from Bangko Sentral ng Pilipinas		223,989	
Due from other banks		40,155	
Interbank loans receivable and Securities purchased under agreements to resell		30,251	
Sub-total		294,395	2,185
Financial assets at fair value through profit or loss - Trading securities (*)		32,422	279
Financial assets at fair value through profit or loss - Derivative financial assets		4,788	
Sub-total		37,210	
Financial assets at fair value through other comprehensive income (*)		130,186	4,090
Investment securities at amortized cost (*)		244,653	12,075
Loans and advances, net		1,407,413	91,972
Others		2,548	-
TOTAL		**2,116,405**	**110,601**

(*) Please refer to the succeeding pages for the detailed information on these financial assets.

BANK OF THE PHILIPPINE ISLANDS
December 31, 2020

Schedule B: Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

Name and designation of debtor	Balance at beginning of period	Additions	Amount collected	Amount written off	Current	Not current	Balance at beginning of period
Nothing to report. Transactions with these parties are made under the normal course of business.							

BANK OF THE PHILIPPINE ISLANDS
December 31, 2020
(In Millions of Pesos)

Schedule C - Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements

Name and designation of debtor	Balance at beginning of period	Additions	Amounts Collected	Amounts written-off	Current	Not Current	Balance at the end of period
BANK OF THE PHILIPPINE ISLANDS	11	2	10	-	3	-	3
BPI DIRECT BANKO, INC.	530	-	85	-	445	-	445
BPI CAPITAL CORP.	1	3	-	-	4	-	4
BPI FAMILY SAVINGS BANK, INC.	120	31	-	-	151	-	151
BPI INVESTMENT MANAGEMENT, INC.	-	7	-	-	7	-	7
BPI CENTURY TOKYO LEASE AND FINANCE CORP.	6	-	6	-	-	-	-
BPI SECURITIES CORP.	90	10	-	-	100	-	100
BPI CENTURY TOKYO RENTAL CORP.	23	-	23	-	-	-	-
BPI ASSET MANAGEMENT AND TRUST CORP.	41	18	-	-	59	-	59
APLANS	5	-	5	-	-	-	-
BPI/MS INSURANCE CORPORATION	-	2	-	-	2	-	2
	827	**73**	**129**	**-**	**771**	**-**	**771**

BANK OF THE PHILIPPINE ISLANDS
December 31, 2020
(In Millions)

Schedule D - Long-term Debt

Title of issue and type of obligation	Amount authorized by indenture (Original Currency)	Amount shown under caption "Current portion of long-term debt" in related balance sheet (In PhP)	Amount shown under caption "Long-term debt" in related balance sheet (In PhP)	Terms of long-term debt
Parent Bank				
Bills Payable Interbank term Loan	USD100	-	4,780	Int Rate : 0.92738 % Frequency of Payment: Quarterly Maturity Date : 3/25/2022 Face Value : USD 100,000,000
Bonds Payable	USD 600	-	28,695	Int Rate : 4.25 % Frequency of Payment: Semi - Annual Maturity Date : 9/4/2023 Face Value : USD 600,000,000
Bonds Payable	USD 300	-	14,330	Int Rate : 2.5 % Frequency of Payment: Semi - Annual Maturity Date : 9/10/2024 Face Value : USD 300,000,000.00
Bonds Payable	PhP 15,328	-	15,251	Int Rate : 0.424 % Frequency of Payment: Quarterly Maturity Date : 1/24/2022 Face Value : PHP 15,328,200,000
Bonds Payable	PhP 21,500	-	21,391	Int Rate : 0.0305 % Frequency of Payment: Quarterly Maturity Date : 5/07/2022 Face Value : PHP 21,500,000,000

(forward)

Bonds Payable	CHF100	5,415	-	Int Rate: 0 % Frequency of Payment: N/A Maturity Date: 9/24/2021 Face Value: CHF 100,000,000
Bonds Payable	PhP 33,896	33,724	-	Int Rate: 4.05 % Frequency of Payment: N/A Maturity Date: 9/27/2021 Face Value: PHP 33,895,900
Bills Payable	PhP 16,762	16,762	-	Various
SUBTOTAL		**55,901**	**84,447**	

BPI Family Savings Bank, Inc.				
Bonds Payable	PhP 9,600	-	9,545	Int Rate : 4.30 % Frequency of Payment: Quarterly Maturity Date : 6/16/2022 Face Value : PHP 9,600,000,000
BPI Europe				
Bills Payable	GBP 33	2,054	-	Various
TOTAL		**57,955**	**93,992**	

BANK OF THE PHILIPPINE ISLANDS
December 31, 2020

Schedule E - Indebtedness to Related Parties (Long-Term Loans from Related Companies)

Name of related party	Balance at beginning of period	Balance at end of period
Nothing to report.		

BANK OF THE PHILIPPINE ISLANDS
December 31, 2020

Schedule F - Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
Nothing to report.				

BANK OF THE PHILIPPINE ISLANDS
December 31, 2020

Schedule G - Capital stock

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights *	Number of shares held by related parties	Directors, officers and employees	Others
Common Shares	4,900,000,000	4,513,101,605	15,921,667	2,294,725,778	30,464,864	2,187,910,963
Preferred A Shares	60,000,000	-	-	-	-	-

Shares granted but not yet exercised

ANNEX "C"

PLAN OF MERGER

This Plan of Merger (the "**Plan**") is executed this 23rd of March 2021, at Makati City, to be implemented by and between:

> **BANK OF THE PHILIPPINE ISLANDS,** a universal banking corporation duly organized and validly existing by virtue of the laws of the Republic of the Philippines, with principal office address at 15/F Tower One, Ayala North Exchange, 6796 Ayala Ave. corner Salcedo St., Legaspi Village, Makati City, represented herein by its President, Cezar P. Consing (hereinafter "**BPI**")
>
> And
>
> **BPI FAMILY SAVINGS BANK, INC.** a thrift banking corporation duly organized and validly existing by virtue of the laws of the Republic of the Philippines, with principal office address at BPI Family Savings Bank Center, Paseo de Roxas corner Dela Rosa St., Makati City, represented herein by its President, Maria Cristina L. Go (hereinafter "**BFSBI**")
>
> (The above parties are hereinafter referred to singly as a "**Party**" and collectively as the "**Parties**").

WITNESSETH: That –

WHEREAS, the respective Boards of Directors of the Parties deemed it prudent and in the best interests of each bank and its respective stockholders that BPI and BFSBI engage in a business combination in order to advance their long-term strategic business interests;

WHEREAS, the respective Boards of Directors of the Parties have determined that the business combination of BPI and BFSBI shall be effected through a merger, which merger (the "**Merger**") is in furtherance of and consistent with their respective business strategies and is in the best interest of their respective stockholders;

NOW, THEREFORE, for and in consideration of the foregoing premises, the Parties have mutually agreed and hereby agree to accomplish the Merger as follows:

ARTICLE I
MERGER OF THE PARTIES

1. Subject to the terms and conditions of this Plan of Merger and on the Effective Date (as hereinafter defined), the Parties agree to merge in accordance with Sections 75 to 79 of the Revised Corporation Code and Section 40(C)(2) of the Tax Code, with BPI as the surviving corporation and BFSBI as the absorbed corporation.

2. The Merger shall become effective upon the later of: (a) the issuance by the Securities and Exchange Commission (the "**SEC**") of a Certificate of Merger or (b) 01 January 2022, subject to compliance with Article I, Section 4 of this Plan of Merger.

3. At and after the Effective Date, all of the legal consequences set forth in Section 79 of the Revised Corporation Code and those provided in this Plan, shall take effect with respect to the merger, including the following:

   (a) BPI and BFSBI shall become a single corporation, with BPI as the surviving corporation. The separate corporate personality of BFSBI shall cease to exist;

   (b) BPI shall continue to possess all its rights, privileges, attributes, immunities, franchises, and powers and shall continue to be subject to all its duties and liabilities, as those existing immediately prior to the merger;

   (c) All the rights, privileges, immunities, franchises, and powers of BFSBI shall be deemed transferred to and possessed by BPI, in addition to those originally belonging to BPI;

   (d) All the assets and properties of BFSBI, real or personal, tangible or intangible, and all receivables due on whatever account, including subscription to shares and choses in action, and all and every other interest of, belonging to, or due to BFSBI shall be deemed transferred to BPI without further act or deed; and

   (e) All liabilities and obligations of BFSBI as of the Effective Date shall be transferred to and become the liabilities and obligations of BPI in the same manner as if BPI has itself incurred such liabilities and obligations, and in order that the rights and interest of creditors of BFSBI or liens upon the property of BFSBI shall not be impaired by the merger.

4. The effectivity of this Plan shall be subject to the approval of the Bangko Sentral ng Pilipinas (the "BSP"), the SEC, and the Philippine Deposit Insurance Corporation.

5. The Parties may file an application with the Bureau of Internal Revenue for the issuance of a ruling that the Merger qualifies as a tax-free merger under Section 40(C)(2) of the National Internal Revenue Code of 1997, as amended.

ARTICLE II
<u>EXCHANGE OF SHARES</u>

1. As of the Effective Date, BFSBI shall transfer all its assets and liabilities to BPI to implement an ordinary merger treated as such under Title IX of the Revised Corporation Code and Section 40(c)(2) in relation to Sec. 40(C)(6)(b) of the National Internal Revenue Code. BPI shall issue common shares as determined under Clause 2 hereof in exchange for such assets and liabilities of BFSBI.

2. The procedure for determining the number of BPI common shares that will be issued pursuant to the merger shall be as follows:

   (a) The number of BPI common shares that will be issued pursuant to the Merger shall be determined using the Net Asset Value ("NAV") of BFSBI as of 31 December 2020 as reflected in its Audited Financial Statements and BPI's share price as of 29 December 2020 as follows:

$$\text{BPI Shares to be issued} = \frac{\text{BFSBI NAV as of 31 December 2020}}{\text{BPI Share Price as of 29 December 2020 (Php81.35)}}$$

(b) Any fractional shares resulting from the application of the formula provided in Article II, Section 2(a) above shall be disregarded and rounded down to the nearest whole number of BPI common shares.

3. The investment in subsidiary account will accordingly be cancelled, and treasury account will be recognized for the newly issued BPI common shares.

4. Any excess in the value of the net assets of BFSBI acquired by BPI over the par value of the BPI common shares issued in accordance with Article II, Section 2 above shall be treated as additional paid-in capital in the books of BPI after the merger.

5. The results of operations and any change in the assets and liabilities of BFSBI from 01 January 2021 shall not affect the determination of the number of BPI common shares that will be issued pursuant to the merger, and adjustments shall not be made in the NAV per share and share price after 31 December 2020. Any net income earned by BFSBI from 1 January 2021 until the Effective Date shall be declared and paid as dividends to BPI and any net loss incurred by BFSBI during the same period shall be absorbed and for the account of BPI.

ARTICLE III
UNDERTAKINGS AND ADDITIONAL AGREEMENTS

1. BPI shall, simultaneous with the filing of the application for Merger, cause the amendment of its Articles of Incorporation, for purposes of increasing its authorized capital stock to ensure that it has sufficient unissued capital stock to cover the common shares that BPI will issue pursuant to Article II hereof.

2. The Parties hereby undertake to:

   (a) Secure the conformity and approval of this Plan of Merger by their respective stockholders representing at least two-thirds (2/3) of their respective outstanding capital stock at their respective stockholders' meetings called for such purpose.

   (b) Obtain any and all required consents, approvals, or waivers of other parties, including their respective creditors, to the Plan of Merger.

   (c) Jointly exert their best efforts to secure the approval of the Merger and its related transactions from the government authorities as provided for in Article I, Section 4 hereof.

3. Prior to the Effective Date, the Parties shall conduct their respective businesses in substantially the same manner as previously conducted and shall continue to preserve said businesses as a going concern. However, each of BPI and BFSBI shall give each other immediate notice of any claim, event or transaction which could or does

materially and adversely affect their respective businesses, properties or financial condition.

4. The Amended Articles of Incorporation and By-Laws of BPI approved as of the Effective Date shall continue to be the Articles and By-Laws of BPI until thereafter changed or amended in accordance with law.

5. The directors of BPI as of the Effective Date shall continue to be the directors of BPI, each to hold office in accordance with the Articles of Incorporation and By-Laws of BPI and applicable law, and until their respective successors are duly elected and qualified.

6. The Parties shall execute and deliver, or cause to be executed and delivered, all deeds and other instruments and shall take, or cause to be taken, all such other and further acts desirable in order to fully carry out the intent and purposes of this Plan of Merger.

7. Unless otherwise required by law or regulation or as may be agreed upon by the parties, each of the Parties will use its best efforts to keep confidential any information obtained from the other party, and in the event the Merger is abandoned or not consummated, BPI and BFSBI shall return all documents and other written information and materials obtained in connection herewith.

8. All fees, costs and expenses relating to the merger shall be borne by BPI.

ARTICLE IV
SPECIAL PROVISIONS

1. This Plan of Merger has been approved by the respective Boards of Directors of the Parties and shall be submitted to their respective stockholders for approval in accordance with law and the respective By-Laws of BPI and BFSBI; provided, that the approval of this Plan of Merger by the stockholders of both Parties shall constitute an authorization to their respective Board of Directors by majority vote to correct typographical errors or clerical omissions in the Plan of Merger for the sole purpose of accurately reflecting the terms and conditions of the Plan of Merger as actually approved by the said stockholders.

2. As soon as practicable after the Effective Date, BPI shall take such steps or measures as it may deem necessary or advisable to substitute itself in all suits and proceedings where BFSBI is a party and to substitute its name for BFSBI in all titles and registers.

3. As soon as practicable after the approval of this Plan of Merger by the required votes of stockholders of BPI and BFSBI during their respective stockholders' meetings called for the purpose, BPI shall apply for and avail itself of the merger incentives or other similar incentives granted by the BSP and other government agencies, as may be applicable or allowed under existing law, rules and regulations.

4. Upon approval of this Plan of Merger by the required number of stockholders from both Parties during their respective stockholders' meetings called for the purpose, the attached Articles of Merger marked as Annex "A" hereof and made as an integral part

of this Plan of Merger shall be executed by BPI and BFSBI, to be signed by the President and certified by the Corporate Secretary of each of BPI and BFSBI setting forth this Plan of Merger, the number of shares outstanding of BPI and BFSBI, and the number of shares voting for and against this Plan of Merger, respectively.

5. In the event that the Merger is not consummated for whatsoever reason, each of BPI and BFSBI, their respective stockholders, directors and agents, successors and assigns shall hold each other free and harmless form any and all liabilities and damages arising from or incurred by reason of the non-consummation of the Merger.

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IN WITNESS WHEREOF, the duly authorized representatives of BPI and BFSBI have executed the foregoing Plan of Merger this __________________ at Makati City.

BANK OF THE PHILIPPINE ISLANDS	**BPI FAMILY SAVINGS BANK, INC.**
By:	By:
(Sgd.) CEZAR P. CONSING President	**(Sgd.) MARIA CRISTINA L. GO** President

Certified Correct by:

BANK OF THE PHILIPPINE ISLANDS	**BPI FAMILY SAVINGS BANK, INC.**
By:	By:
(Sgd.) ANGELA PILAR B. MARAMAG Corporate Secretary	**(Sgd.) ANGELA PILAR B. MARAMAG** Corporate Secretary

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI) S.S.

MAR 23 2021

BEFORE ME, a Notary Public for and in the City of Makati City, this ___ day of ____ 2021, personally appeared:

Affiant	Competent Evidence of Identity	
	Type of ID	ID Number and Expiry Date (if applicable)
BANK OF THE PHILIPPINE ISLANDS By Cezar P. Consing	Passport	P6868155A / 16 April 2028
BPI Family Savings Bank, Inc. By Maria Cristina L. Go	Passport	P5883873A / 02 February 2028
Angela Pilar B. Maramag	SSS	33-0928666-1

who represented to me that they executed the foregoing Articles of Merger for the purposes stated therein and acknowledged to me that the same is their free and voluntary act and deed and of the corporations they represent.

WITNESS MY HAND AND SEAL on the date and place first herein above stated.

ATTY. GERVACIO B. ORTIZ JR.
Notary Public, City of Makati
Extended until June 30, 2021
NOTARY PUBLIC
Per B.M. No. 3795
IBP No. 05729-Lifetime Member
MCLE Compliance No. VI-0024312
Appointment No. M-183-(2019-2020)
PTR No. 8531011 Jan. 4, 2021
Makati City Roll No. 40091
101 Urban Ave. Campos Rueda Bldg.
Brgy. Pio del Pilar, Makati City

Doc. No. 73 ;
Page No. 16 ;
Book No. IX ;
Series of 2021.

ANNEX A

Articles of Merger

(To be executed by BPI and BFSB after their respective shareholders' approval of the Plan of Merger)

Exhibit 1

Accounting Treatment of the Transaction

A. If there is an increase in Net Asset Value from the exchange ratio date to the effective date
   1. BFSB to declare dividends before the merger if with Net Income for the year
      - Dr. Cash
        - Cr. Dividend Income
   2. Merger of BPI and BFSB (Conso Books)
      - Dr. Asset of BFSB
      - Dr. Treasury Shares
        - Cr. Liabilities of BFSB
        - Cr. Investments in BFSB (cost + equity income)
        - Cr. Capital Stock
        - Cr. Paid in Capital
        - Cr. Merger Reserves
   3. Merger of BPI and BFSB (Solo Parent Books)
      - Dr. Assets of BFSB
      - Dr. Treasury Shares
        - Cr. Liabilities of BFSB
        - Cr. Investments in BFSB (cost)
        - Cr. Capital Stock Common
        - Cr. Paid in Capital
        - Cr. Merger Reserves
        - Cr. Specific Equity Line

B. If there is a decrease in Net Asset Value from the exchange ratio date to the effective date
   1. Merger of BPI and BFSB (Conso Books)
      - Dr. Asset of BFSB
      - Dr. Merger Reserves
      - Dr. Treasury Shares
        - Cr. Liabilities of BFSB
        - Cr. Investments in BFSB (cost + equity income)
        - Cr. Capital Stock
        - Cr. Paid in Capital
        - Cr. Specific Equity Value
   2. Merger of BPI and BFSB (Solo Parent Books)
      - Dr. Assets of BFSB
      - Dr. Treasury Shares
        - Cr. Liabilities of BFSB
        - Cr. Investments in BFSB (cost)
        - Cr. Capital Stock Common
        - Cr. Paid in Capital
        - Cr. Merger Reserves
        - Cr. Specific Equity Line

BPI FAMILY SAVINGS BANK, INC.

PART I

Description of Business

BPI Family Savings Bank, Inc. (the "Bank" or "BFSB") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on July 1, 1985 primarily to engage in, and carry on, the general business of savings and mortgage banking in accordance with the provisions of the General Banking Act.

The Bank is a wholly-owned subsidiary of Bank of the Philippine Islands ("BPI"), a universal with an expanded banking license registered in the Philippines, which is also its ultimate parent.

BFSB serves as the thrift bank and consumer lending arm of BPI. BFSB maintains its position as the Philippines' largest thrift bank with assets totaling ₱287.1 billion as of 31 December 2020.

The Bank's registered office address, which is also its principal place of business, is located at 6th Floor, BPI Family Bank Centre, Paseo de Roxas corner Dela Rosa Sts., Makati City.

BFSB offers checking, savings accounts, and time deposit accounts in pesos and US dollars. The Bank also offers housing and auto loans and also cross-sells credit cards, personal loans, investment and insurance products of its parent bank, BPI and BPI subsidiaries and affiliates.

The Bank's main source of revenues is interest income from loans and advances which accounted for 81 to 83% of total revenue for the past three years.

Amounts in thousands of Philippine Peso	FY 2020	FY 2019	FY 2018
NET INTEREST INCOME	10,954,787	9,604,460	10,544,872
OTHER INCOME	2,534,903	2,076,885	2,099,272
Fees and Commissions	962,523	1,340,563	1,121,838
Forex Profit and Securities Trading Gain	567,459	151,305	405,478
Net gains/(losses) on derecognition of financial assets measured at amortized cost	552,757	24	
Other Operating Income	452,164	584,993	571,956
TOTAL REVENUES	13,489,690	11,681,345	12,644,144

As of December 2020, mortgage and auto loans account for 61% and 22%, respectively, of the Bank's total loan portfolio.

Amount in Thousands of Philippine Pesos	Dec-20	% of Total
Corporate Loans		
Large Corporate Loans	18,231,399	8.01%
Small and Medium Enterprises	17,152,052	7.54%
Retail Loans		
Real estate Mortgages	138,685,793	60.97%
Auto Loans	51,043,144	22.44%
Credit Card	2,370,828	1.04%
Others	665	0.00%
TOTAL	227,483,881	100.00%

1. Description of Products -

Deposit Products

BPI Family Savings Bank offers checking and savings accounts, along with time deposits in pesos and U.S. dollars. BFSB regards a deposit as the primary entry point of its relationship with clients, and the deposit base as a significant channel to which it markets its loan products.

Housing Loans

The Bank offers loans to property buyers in the Philippines who intend to use the premises as their primary residence. The Bank's home mortgage loans have funded horizontal developments by reputable developers. The Bank also lends primarily in the middle to high-end market segment. Home mortgage loans are secured by a first mortgage on the property being purchased. In addition, the Bank generally requires residential mortgage borrowers to have an equity interest of at least 20% of the value of the property. Home mortgage loans are typically payable in monthly amortizing payments based on market-linked interest rates. The Bank may lend up to 80% of the developer selling price or the Bank's appraised value of houses and lots. The Bank requires home mortgage borrowers to obtain both fire insurance and mortgage redemption insurance.

As of December 31, 2020, home mortgage loans to individuals on average amount to Php 3 million. Interest rates on the Bank's home mortgage loans range from 6.88% to 8.88% over the same period. In accordance with industry practice in the Philippines, interest rates on the Bank's home mortgage loan portfolio are set at a fixed rate applicable for an initial period of between one and 15 years, depending on the maturity of the loan, which ranges from one to 25 years. Following the expiry of this initial period, the interest rate is reset at a fixed rate applicable to succeeding periods.

Auto Loans

The Bank offers loans primarily for the acquisition of new cars and only for accredited brands for which a consistent track record of after-sales service has been established. The Bank focuses its lending efforts on those brands that it believes will be able to best retain their resale value. The Bank also works with local dealers to supply financing solutions and easier access to auto loans to their customers.
As of December 31, 2020, the Bank's auto loans on average amount to Php 1 million in principal amount and have average terms of between 12 and 60 months. The applicable interest rate is generally fixed with an amortizing repayment schedule over the term of the loan. The Bank also typically lends up to 80% of the value of a new car. The maximum amount varies depending on the model and year of the car and is based on the Bank's internal assessments of the resale value. All of the Bank's auto loans are secured by a first mortgage or legal charge over the cars being purchased. As of December 31, 2020, the prevailing effective interest rates of the Bank's auto loans range from 9.0% to 10.0%, depending on the loan tenor.

SME Loans

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

Credit Cards

BPI Family Credit Card is positioned to cater to the family's daily necessities. The "no frills" credit card helps the family stretch its cash flow with interest rates and card maintenance fees that are among the lowest in the market. BPI Family MasterCard addresses the family's emergency cash needs by allowing cash advances of up to 30% of the credit card limit.

2. Percentage of Sales or Revenues and Net Income Contributed by Foreign Sales

Not applicable.

3. Distribution Methods of Products and Services

BFSB is a thrift bank that primarily offers retail loans and deposit products. Branch network is currently at 162 with dominant presence in Metro Manila with 98 branch; 40 are in Luzon, 14 in Visayas and 10 in Mindanao. The Bank also shares ATM network with BPI with over 2,243 ATM nationwide as of end-November 2020; 1,314 are branch based while 929 are offsite. Apart from its own branch network, BFSB leverages BPI Parent’s network of 707 branches to reach potential loan clients.

BFSB’s Retail Loans Centers nationwide enables it to extend lending beyond Metro Manila to key provincial areas across the Philippines. BFSB continues to cultivate long-time partnerships with the country's vehicle manufacturers, car dealers, real estate brokers to reach potential clients more effectively. Furthermore, the Bank reaches its clients through its digital platform, bpiloans.com.

4. New Product or Service

Not applicable.

5. Competitive Business Condition and Competitive Position in the Industry and Method of Competition

There are various factors that drove the growth of retail loans which are the primary products of BFSB. Among these are the sustained economic growth which averaged more than 6% in the past eight years prior to the decline posted in 2020, increase in disposable household income, and increase in population.

As of September 2020, the Thrift Banking Group has 43 banks while the Universal/Commercial Banking Group comprises of 46 banks. Among its peers BFSB is regarded as the largest thrift bank in as of September 2020. Being the retail arm of BPI, BFSB directly competes with Universal/Commercial Banks such as BDO, Metrobank, Security Bank, etc. in the Housing and Auto loans industry. As of September 2020, BFSB has 17.6% Housing Loan market share while 9.6% Auto Loans market share.

There is continuous effort to enhance our relevance to our clients and deepen customer satisfaction through enriching experiences, value-for-money products and expert financial advice.

6. Sources and Availability of Raw Materials and Names of Principal Supplier

Not applicable.

7. Dependence upon Single Customer or a Few Customer

No single customer that exceeds the 30% single borrower’s limit (SBL) of BSP.

8. Transaction with and/or Dependence on Related Parties

BFSB is a wholly-owned subsidiary of BPI.

BFSB has extended mortgage, auto and card loans to directors, officers, employees of BPI and BPI subsidiaries and affiliates.

Significant and material related party transactions reviewed, vetted and endorsed by Related Party Transaction Committee, a Board-level committee , such that these transactions are dealt on terms no less favorable to the Bank than those generally available to an unaffiliated third-party under similar circumstances.

9. Patents, Trademarks, Licenses, Franchises, Concessions, and Royalty Agreements Held

BFSB is a registered owner for various trademarks and logos for its loans and credit cards designs.

10. Need for Government Approval on Principal Products and Services

BFSB has a license from the BSP to operate as a thrift bank. As a thrift bank, BSFB is primarily engaged in accumulating deposits and investing them by providing housing, auto and credit card loans to its chosen markets, composed mostly of small and medium enterprises and individuals.

BFBS is a product of a merger between BPI and the Family Bank and Trust Company in 1985. BFSB then registered with the SEC as a wholly-owned subsidiary of BPI and then registered with the Bureau of Domestic Trade the trade or business name of "BPI Family Bank", and acquired a goodwill and reputation under the name.

11. Effect of Existing or Probable Governmental Regulations on Business

BSP Circular 1098: Ceiling on Interest or Finance Charges for Credit Card Receivables

The BSP set a 24% per annum interest rate ceiling on all credit cards and an interest rate or finance charges on unpaid outstanding credit card balance of a cardholder that should not exceed 2% per month. This regulation aims to ease the financial burden of consumers amid the challenging economic environment caused by the Covid-19 pandemic. The regulation which covers all credit card issuers under the Credit Card Industry Regulation Law took effect on November 2020 and is subject to review by BSP every six months.

BFSB being one of the BSP Supervised Financial Institution (BSFI) implemented the provisions of BSP Circular 1098 starting November 2020.

Interest rate cap may result in slowdown of credit card loan business as the Bank may find it difficult to recover costs from lending to high-risk customers. This may likely reduce the Bank's revenue in the form of interest income, and other fees and charges.

Proposed House Bill 7967

Proposed House Bill 7967 which prescribes a maximum rate on all loans may potentially have deeper negative effect on the Bank's revenue and profitability compared to BSP Circular 1098. The proposed House Bill, which covers all loans including cash and advances, may have a significant negative effect on interest income which accounts for 80-83% of the Bank's total revenue in the past three years.

Proposed House Bill 8818

Proposed House Bill 8818 seeks to amend the Philippine Deposit Insurance Commission (PDIC) Charter to grant PDIC power to increase the maximum deposit covered by insurance to PhP1 million from current Php500,000.

The proposed bill may likely increase the cost of funds and lower the net income of the Bank.

12. Research and Development Activities

Not applicable

13. Compliance with Environmental Laws

Not applicable

14. Employees

As of December 2020, BFSB has a total of 2,872 employees. 1,907 (66%) are covered by the Collective Bargaining Agreement ("CBA") as such the remaining 965 are officers.

Some of the benefits BFSB has for its employees:

- Retirement benefit through a defined contribution plan or defined benefit retirement plans
- Car Facility for officers
- Housing, Auto and Miscellaneous Loans
- Hospitalization, Medical and Dental Benefits
- Uniform allowances
- Death or permanent disability benefit through Group Life Insurance Plan
- Loyalty Awards Incentives
- Bereavement Assistance

15. Additional Requirements as to Certain Issues or Issuers

Not applicable.

Description of Property

BFSB main office is situated at BPI Family Bank Center, Paseo de Roxas corner Dela Rosa Streets, Makati City. The center has six floors with mezzanine, penthouse/roof deck and one basement level. Total area of the lot is 2,267.00 square meters, while total floor area of the property is 9,800.90 square meters

Legal Proceedings

BFSB may have filed criminal cases against certain entities for violation the Revised Penal Code. These cases were filed in the ordinary course of business and are not expected to have a material effect the financial position of the Bank.

PART II

Market Price and Dividends

1. Market Information

BFSB common equity shares are not listed.

2. Holders

BFSB is 100% owned by BPI.

3. Dividends

BSFB has declared dividends in the two years.

On February 2020, cash dividends amounting to P3.0 billion (P300 per share) out of the Bank's unrestricted surplus payable to stockholders of record as at January 2020. The cash dividends were paid in March 2020.

On August 2019, the Bank declared cash dividends equal to P3.0 billion (P300 per share) out of the Bank's unrestricted surplus payable to stockholders of record as at July 31, 2019. The cash dividends were paid in August 2019.

There are no restrictions that limit the payment of cash dividends on common shares.

4. Recent sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction

Not applicable.

PART III

2020 Performance

For the full year 2020, BPI Family Savings Bank (BFSB) earned P 2.4B which was 42.0% lower than in 2019. Revenues increased by 15.5% and operating expenses decreased by 1.8%, leading to a 41.1% increase in pre-provisions operating profit (PPOP). The increase in PPOP was however eroded by P 5.0B loss provisions which was 15.6x of the provisions in 2019. Return on average equity (ROE) decreased from 11.8% in 2019 to 7.0% in 2020 and return on average assets (ROA) from 1.5% to 0.8% in 2019.

Revenues increased by P 1.8B or 15.5%. Net interest income rose by 14.1% or P 1.4B as spreads widened by due to lower funding cost. Non-interest income likewise increased by 22.1% or P 458M driven by P 978M higher securities trading gains, which made up for the decline in fees, commission & other income amidst fee moratoriums and lower loan transaction fees in a COVID-19 environment.

Operating expenses declined by 1.8% or P 126M driven by overhead costs which decreased by 12.6% or P 418M. The Bank saved on marketing and sales costs such as incentives to dealers, developers and brokers, events costs, and litigation expenses, given lower business activity amidst the pandemic. However, other major expense lines increased: technology costs by 13.9% or P 105M due to higher mainframe usage, and manpower by 9.4% or P 201M due to CBA increases and retirement costs.

The Bank's assets of P 287.1B were 0.7% or P 2.1B larger than in 2019, funded by deposits, mostly float. Gross loans climbed by 1.8% or P 4.0B led by housing loans, supported by CTS acquisition. Meanwhile, net loans contracted due to the increase in loan loss reserves.

Versus 2019, total liabilities stood at P 254.1B larger by 1.3% as deposits grew by P 1.6B or 0.7%. The year saw a shift from long-term time deposits to float deposits reflecting clients' higher demand for liquidity. Peso float deposits expanded by 18.5%. This was tempered by a 14.6% or P 17.4B drop in time deposits. Meanwhile, FCDU deposits increased by 3.4%.

The Bank's total Capital at P 33.0B was lower by P 1.2B or 3.5% versus last year due to P 3.0B cash dividend paid this year and actuarial losses, tempered by earnings in 2020.

2019 Performance

For the full year 2019, BPI Family Savings Bank (BFSB) posted a net income of P 4.0B which was lower by P 1.3B or 23.9% than in 2018. Core revenues declined by 8.9% or P 0.9B due to net interest margin (NIM) compression driven by upswing in deposit cost. Likewise, non-interest income went down by 1.1% or P 22M. Total revenue slid by 7.6% or P 1.0B, while operating expenses grew by P 548M or 8.5%, led by higher overhead and technology costs.

Lower profits and larger capital base led to return on average equity (ROE) decreasing to 11.7% and return on average assets (ROA) to 1.5%.

Operating expenses crept up by 8.5% or P548M due to increases across all major expense lines. Technology went up by 32.3% or P 184M driven by various digitalization initiatives such as upgrade of the Bank's core banking and loan originations system. Overhead costs increased by P 240M or 7.8% due to sales incentives and other regulatory costs. The P 58M or 8.3% hike in premises resulted from the recognition of interest expense on the lease liability. The Bank has transitioned to the new accounting standard, PFRS 16: Leases. Likewise, manpower cost increased by P 66M or 3.2% mainly from salaries and wages.

Loss provisions also increased by 61.1% or P 121M versus 2018. The Bank kept a prudent stance as it added provisions despite the year-on-year improvement in expected credit losses (ECL).

Versus 2018, the Bank's total assets of P 285B were larger by P 12.8B or 4.7% funded by a P 9.5B bond issuance. Loans, net of allowance for probable losses grew by P 12.9B or 6.2% driven by a P 15.8B or 12.2% increase in retail loans aided by CTS acquisitions. Likewise, auto loans grew by P 2.7B or 4.9%. These increases were tempered by a P 6.5B decline in commercial and SME loans.

Compared to last year, liabilities were P 12.0B or 5.0% larger due to bonds payable recorded in December. Total deposits slightly grew by P 583M or 0.3% to P 233.0B. Float deposits inched up by P 520M or 0.5% while peso time deposit was flat versus 2018.

The Bank's total capital at P 34.2B went up by P 797M or 2.4% due to accumulation of earnings. This was however tempered by a P 3.0-B cash dividend in 2019, P211M lower actuarial gains on defined benefit plan and P 18M lower marked-to-market income on FVOCI securities.

2018 Performance

BPI Family Savings Bank (BFSB) earned a P 5.3B net income for the full year 2018 - lower than last year by 4.7%, due to modest loan growth and higher operating costs. Return on average equity (ROE) stood at 17.4% and return on average assets (ROA) at 2.0%.

Total revenues shrank by P277M or 2.1% led by the P 557M decline in net interest income due a decrease in average asset base.

Meanwhile, the 15.4% or P281M growth in non-interest income tempered the decrease in core revenues. The Bank gained P 380M on the sale of long term bonds, and posted 50% higher profits on assets sold due to faster turn-over through lot sales.

Total expenses were flat, increasing by 0.2% or P17M. Operating expenses inched up by 1.4% or P 91M, while provisions for probable losses went down by 3.7% or P8M. Meanwhile, taxes decreased by P100M or 12% due to lower pre-tax income.

Compared to 2017, assets were larger by P 4.5B or 1.7% due to deposit build-up and, capital accumulation. Loans grew by 2.9% or P 5.8B, helped by the aggressive acquisition of contracts-to-sell (CTS).

Total liabilities at P 238.8B shrank by P 1.1B or .5% to P 239B due to 2018 payout of cash dividends declared in 2017. This decline in other liabilities offset the P 797M increase in total deposits. Time deposits increased P 4B driven by a P 14B or 23% surge in Plan Ahead deposits. This replaced the P 10B decline in short-term regular time deposits, as the Bank offloaded large institutional deposits to minimize concentration risk. On the other hand, float deposits decreased by P3.9B, while FCDU deposits improved slightly by P 0.6B.

Stockholders' equity increased by P 5.5B or 20.0%, on account of earnings generated for the year. The Bank also recognized P 165M lower actuarial loss on employees' retirement fund and P 120M higher marked-to-marked gains in FVOCI securities.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

There were no disagreements with Isla Lipana & Company on any matter regarding accounting principles or financial disclosures for the financial statements for years ending 2020 and 2019.

PART IV

The following are the Board of Directors and Principal Officers of BPI Family Savings Bank as of 08 March 2021:

Directors	**Regular/Independent**
Cezar P. Consing	Regular
Gerardo C. Ablaza, Jr.	Regular
Rebecca G. Fernando	Regular
Aurelio R. Montinola III	Regular
Mercedita S. Nolledo	Regular
Antonio Jose U. Periquet	Independent
Jesus V. Razon, Jr.	Independent
Ma. Ysabel P. Sylianteng	Independent
Principal Officers	**Position/Designation**
Maria Cristina L. Go	President
Dennis T. Fronda	SVP
Lionel F. Leonen	Treasurer
Angela Pilar B. Maramag	Corporate Secretary

Board of Directors

Cezar P. Consing

Mr. Consing serves as Chairman of BPI's thrift bank, investment bank, UK bank, property and casualty insurance, leasing, and rental subsidiaries, and Vice Chairman of its Foundation; and is also a board director of BPI's life insurance, asset management and micro finance subsidiaries. Mr. Consing serves as President and board director of Bancnet, Inc., and board director of LGU Guarantee Corporation, three industry consortium institutions where BPI is a minority shareholder.

In March 2019, Mr. Consing was elected as President of Bankers Association of the Philippines (BAP).

Age
61, Born 1959

Nationality
Filipino

Career
Since 2013, he has been the President and Chief Executive Officer of BPI and a Senior Managing Director of Ayala Corporation, BPI's controlling shareholder.

Relevant Skills and Experience
Mr. Consing first worked for BPI, in corporate planning and corporate banking, from 1981- 1985. He worked for J.P. Morgan & Co., based in Hong Kong and Singapore, from 1985 - 2004, rising to co-head and head of the firm's investment banking business in Asia Pacific from 1997 - 2004, the last five years as President of J.P. Morgan Securities (Asia Pacific) Ltd. As a senior Managing Director of J.P. Morgan, Mr. Consing was a member of the firm's global investment banking management committee and its Asia Pacific management committee. Mr. Consing was a partner at The Rohatyn Group from 2004 - 2013, headed its Hong Kong office and its private investing business in Asia, and was a director of its real estate, and energy and infrastructure private equity investing subsidiaries.

Education
Mr. Consing received an A.B. Economics degree (Accelerated Program), magna cum laude, from De La Salle University, Manila, in 1979. At university, he was a member of the student council, the student

newspaper and the varsity track and field team. Mr. Consing obtained an M.A. in Applied Economics from the University of Michigan, Ann Arbor, in 1980.

Gerardo C. Ablaza, Jr.

Age
67, Born 1953

Nationality
Filipino

Career
Mr. Ablaza is currently a Management Consultant at the Ayala Corporation and a member of the Board of Directors in a number of Ayala's subsidiaries including PSE-listed Manila Water Company, Inc. (Non-Executive Director), AC Energy, AC Health, AC Infrastructures and Ayala Foundation.

Relevant Skills and Experience
From 1998 to April 2009, he was President and CEO of Globe Telecom, Inc. During this period, he took the company from being the fourth-ranked mobile services provider to the second-largest full-service telecom operator with a subscriber base of 25 million in 2008. From 2010 to 2017, he was the President and CEO of Manila Water Company and was responsible for overseeing the financial and operational growth within Manila Water's service areas in the Metro Manila East Zone and in its expansion areas.

In 2004, Mr. Ablaza was recognized by CNBC as the Asia Business Leader of the Year, making him the first Filipino CEO to win the award. He was also awarded by Telecom Asia as the Best Asian Telecom CEO. In 2013, he was recognized for his consistent leadership and innovation across the banking, investment, telecommunications and utility service industries through the Citi Distinguished Alumni Award for Leadership and Ingenuity. He was the first Filipino to be awarded with such an honor.

Education
Mr. Ablaza graduated summa cum laude from the De La Salle University in 1974 with a degree in Liberal Arts, major in Mathematics (Honors Program).

Rebecca G. Fernando

Age
72, Born 1948

Nationality
Filipino

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

Relevant Skills and Experience
She is a Certified Public Accountant

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

Aurelio R. Montinola III

Age
69, Born 1951

Nationality
Filipino

Career
Mr. Montinola served as President and Chief Executive Officer of BPI for eight years from 2005 to 2013, and BPI Family Savings Bank, Inc. for twelve years from 1992 to 2004.

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

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

Mercedita S. Nolledo

Age
79, Born 1941

Nationality
Filipino

Career
Ms. Nolledo was a Senior Managing Director and also served as Corporate Secretary of Ayala Corporation and Senior Counsel of the Ayala Group of Companies.

Relevant Skills and Experience
She was a member of the Board of Directors of Ayala Corporation from 2004 until September 2010. She is a CPA-Lawyer.

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

Antonio Jose U. Periquet

Age
59, Born 1961

Nationality
Filipino

Career
Mr. Periquet spent the early part of his career doing equity research, sales and trading for several firms in London, eventually joining Deutsche Bank as head of the Asian Equities desk. In 2000, he established Deutsche Regis Partners, Inc., a joint-venture with Deutsche Bank, which became the largest stockbroker in the Philippines were he as Chairman, Managing Director & Head-Research.

Relevant Skills and Experience
He also, at one time, served on three government boards: the Development Bank of the Philippines, the DBP Leasing Corp., and the Metro Rail Transit Corp.

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

Jesus V. Razon, Jr.

Age
75, Born 1946

Nationality
Filipino

Career
He also serves as a member of the Personnel Compensation Committee and the Corporate Governance Committee of BPI Direct Banko. He worked in Bank of the Philippine Islands for thirty-eight (38) years, from 1968 to 2006, with his last position as Senior Vice President. Among the several BPI subsidiaries and affiliates, Mr. Razon served as member of the Board of Directors of the following: BPI Direct Savings Bank, Inc.; BPI Operations Management Corporation; BPI Forex Corporation; Ayala General Insurance Corporation; BPI Express Remittance, Inc.; Ayala Financial & Ins. Services Corporation and Ayala Life Assurance, Inc. and Chairman of Board of BPI Paseo de Roxas Condominium Corporation.

Relevant Skills and Experience
He also served as an Independent Director of BPI Asset Management, FEU Education Foundation and BPI Globe Banko, A Savings Bank. He is currently an Independent Director of BPI Direct Banko, A Savings Bank and BPI Investment Management, Inc.

Education
Mr. Razon graduated with a degree of A.B. Economics from the Ateneo de Manila University in 1967 and obtained a Master in Management at Asian Institute of Management in 1990.

Ma. Ysabel P. Sylianteng

Age
69, Born 1951

Nationality
Filipino

Career
She served as the Head of Customer Relationship Management Group, Head of Card Banking Division and Head of Financial Control Group and Corporate Planning for twenty-nine (29) years from 1983 to 2012.

Relevant Skills and Experience
She also served as Director of BPI Direct Savings Bank, Inc., BPI Computer Systems Corporation, BPI Operations Management Corporation, BPI Card Finance Corporation, Ayala Plans, Inc., BPI Bancassurance, Inc., BPI Express Remittance Corporation, BPI International Finance Ltd., Santiago Land Development Corporation, First Far East Development Corporation, FEB Speed International Inc., Ayala Life Insurance, Prudential Bank and Pilipinas Savings Bank. She is also an Independent Director of BPI Investment Management, Inc

Education
Ms. Sylianteng graduated with a degree of AB-BSC Major in Accounting from the Assumption College in 1973 and obtained a Master's Degree in Business Admiration at the Stanford University in 1977.

PRINCIPAL OFFICERS

Maria Cristina L. Go
President

Filipino, 51 years old, is the President of BFSB. For 11 years, she was the Head of BPI's Payments and Unsecured Lending Group. She led initiatives and innovations that have differentiated BPI in the industry, such as leading the launch of the first EMV-compliant credit cards and instant gratification Real Thrills

Rewards program. She currently serves as the Secretary and Trustee of the Chamber of Thrift Banks, Chairman of the BPI Payments Holdings, Inc. and a Director of the Board of TransUnion Philippines.

Before joining BPI, Ms. Go was Vice President at Citibank Philippines managing the bank's Retail Bank Marketing then at Citibank Credit Cards Cross Sell Division in New York. She also worked in Ayala Land, Inc. as Head of its Market Planning and Development Division. She started her career in Procter & Gamble as Brand Assistant then promoted to Assistant Brand Manager.

She graduated magna cum laude with a degree in BS Business Administration and Accountancy from the University of the Philippines Diliman, was awarded one of the Ten Outstanding Students of the Philippines, placed first in the CPA licensure exam in 1991, and earned a Master's degree from the Harvard Business School with honors in 1996. She was also awarded as one of UP College of Business Distinguished Alumni in 2012 and one of the Most Influential Filipina Women by the Global Filipina Women's Network in 2016. She was co-President of the Harvard Club of the Philippines from 2012 to 2014 and of the Harvard Business School Club of the Philippines from 2010 to 2012, where she is currently a member of the Board of Trustees and Executive Committee, respectively.

Dennis T. Fronda
Senior Vice President

Filipino, 49 years old, and is the Division Head for the Retail Loans Group. One of the graduates of the Officership Training Program (OTP) of the Bank, he was first assigned as the Operations Officer in BPI (1996-2003). After being assigned to Naga Business Center for BPI Family Savings Bank as an Account Officer, he never looked back. It was the start of his long history with the Bank being assigned to various Business Centers, now called Retail Loans Center; from Dagupan to Visayas-Mindanao area. Before being the Division Head of Auto Loans (2018) to his current position.

Mr. Fronda received his Bachelor of Science in Accountancy degree from St. Louis University in 1994.

Lionel F. Leonen
Treasurer

52 years old, and is the Treasurer for BPI Family Savings Bank.

Mr. Leonen received his Bachelor of Science in Mechanical Engineering and Geodetic Engineering degree from the University of the Philippines, Diliman in 1995 and earned his Master in Business Administration from the same university in 1997.

Angela Pilar B. Maramag
Corporate Secretary

Filipino, 51 years old, was also appointed Corporate Secretary of BPI and various BPI subsidiaries and affiliates, including BPI Direct BanKo, Inc., A Savings Bank, BPI Capital Corp., BPI Asset Management and Trust Corp., BPI Investment Management, Inc., BPI/MS Insurance Corp., and BPI Foundation.

Prior to joining BPI, Ms. Maramag was Senior Counsel at the Bank for International Settlements (BIS) in Basel, Switzerland, from 2001 to 2008, and Head of Finance and Administration at the BIS Representative Office in Hong Kong from 2008 to 2011. She was a Legal Officer at the United Nations Compensation Commission in Geneva, Switzerland, from 1998 to 2001.

Ms. Maramag was admitted to the Philippine Bar (1995) and New York State Bar (1998). She received her Master in Laws (LL.M) from the University of Chicago in 1997, Juris Doctor (J.D) in 1994 from Ateneo de Manila School of Law, and AB Honors Program in Economics in 1990 from Ateneo de Manila University.

BPI Family Savings Bank

BPI
Family Savings Bank Center
Paseo de Roxas corner Dela Rosa St.
Makati City 1229
Philippines
Phone Banking (632) 889 - 10000
www.bpifamily.com

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of BPI Family Savings Bank, Inc. (the "Bank") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2020, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, 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 financial statements, management is responsible for assessing the Bank's ability 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 Bank or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

Isla Lipana & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Cezar P. Consing
Chairman of the Board

Maria Cristina L. Go
President

Lionel F. Leonen
Treasurer

SUBSCRIBED AND SWORN to before me at Makati City, Metro Manila this MAR 30 2021, affiants exhibited to me their Passport with the following details:

Name	Passport No.	Date/Place of Issue	Valid Until
Cezar P. Consing			
Maria Cristina L. Go			
Lionel F. Leonen			

Doc. No. 300;
Page No. 61;
Book No. IX;
Series of 2021.

ATTY. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Extended Until June 30, 2021
Per B.M. No. 3795
IBP No. 05729-Lifetime Member
MCLE Compliance No. VI-0024312
Appointment No. M-183-(2019-2020)
PTR No. 8531011 Jan 4, 2021
Makati City Roll No. 40091
101 Urban Ave. Campos Rueda Bldg.
Brgy. Pio del Pilar, Makati City

Exhibit 3

BPI Family Savings Bank, Inc.

Financial Statements
As at and for the years ended December 31, 2020 and 2019

pwc

Isla Lipana & Co.

pwc

Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholder of
BPI Family Savings Bank, Inc.
6th Floor, BPI Family Bank Centre,
Paseo de Roxas corner Dela Rosa Sts.
Makati City

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of BPI Family Savings Bank, Inc. (the "Bank") as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

What we have audited

The financial statements of the Bank comprise:

- the statements of condition as at December 31, 2020 and 2019;
- the statements of income for the years ended December 31, 2020 and 2019;
- the statements of total comprehensive income for the years ended December 31, 2020 and 2019;
- the statements of changes in capital funds for the years ended December 31, 2020 and 2019;
- the statements of cash flows for the years ended December 31, 2020 and 2019; and
- the notes to the 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.

Independence

We are independent of the 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 financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and Code of Ethics.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the 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 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 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 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 financial statements, management is responsible for assessing the Bank's ability 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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the 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 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 financial statements.

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 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 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 Bank's ability 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 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 Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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.

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 26 and BIR Revenue Regulations No. 15-2010 in Note 27 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 management of the 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.

Isla Lipana & Co.

Ruth F. Blasco
Partner
CPA Cert. No. 112595
P.T.R. No. 0018519, issued on January 5, 2021, Makati City
SEC A.N. (individual) as general auditors 112595-SEC; Category A, valid to audit 2020 to 2024 financial statements
SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024 financial statements
TIN 235-725-236
BIR A.N. 08-000745-133-2020, issued on June 5, 2020; effective until June 4, 2023
BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
March 17, 2021

BPI Family Savings Bank, Inc.

Statements of Condition
December 31, 2020 and 2019
(All amounts in thousands of Philippine Peso)

	Notes	2020	2019
RESOURCES			
CASH AND OTHER CASH ITEMS	2	1,004,339	1,034,938
DUE FROM BANGKO SENTRAL NG PILIPINAS	2,3	17,846,031	23,538,280
DUE FROM OTHER BANKS	2	4,935,660	4,716,194
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	2,4	3,631,258	2,967,396
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	5	-	2,012,907
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	6	6,802,621	2,943,801
INVESTMENT SECURITIES AT AMORTIZED COST, net	7	24,233,039	20,049,310
LOANS AND ADVANCES, net	8	219,636,857	219,822,468
ASSETS HELD FOR SALE, net		2,452,159	2,652,078
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	9	1,791,553	1,764,509
DEFERRED INCOME TAX ASSETS	10	3,885,474	2,534,338
OTHER ASSETS, net	11	871,342	965,756
Total resources		287,090,333	285,001,975
LIABILITIES AND CAPITAL FUNDS			
DEPOSIT LIABILITIES	12	234,582,648	233,005,304
OTHER BORROWED FUNDS	13	9,544,988	9,509,728
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		1,644,409	1,857,730
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		1,734,264	1,785,407
DEFERRED CREDITS AND OTHER LIABILITIES	14	6,541,339	4,604,831
Total liabilities		254,047,648	250,763,000
CAPITAL FUNDS	15		
Share capital		1,000,000	1,000,000
Reserves		427,396	425,350
Surplus		32,622,862	33,261,543
Accumulated other comprehensive loss		(1,007,573)	(447,918)
Total capital funds		33,042,685	34,238,975
Total liabilities and capital funds		287,090,333	285,001,975

(The notes on pages 1 to 62 are an integral part of these financial statements.)

BPI Family Savings Bank, Inc.

Statements of Income
For the years ended December 31, 2020 and 2019
(All amounts in thousands of Philippine Peso)

	Notes	2020	2019
INTEREST INCOME			
On loans and advances	8	15,655,726	15,296,969
On investment securities	5,6,7	1,159,496	812,407
On deposits with BSP and other banks	2,3,4	428,040	773,540
		17,243,262	16,882,916
INTEREST EXPENSE			
On deposits	12	5,838,805	7,260,072
On other borrowed funds	13	449,670	18,384
		6,288,475	7,278,456
NET INTEREST INCOME		10,954,787	9,604,460
IMPAIRMENT LOSSES		5,000,065	320,272
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		5,954,722	9,284,188
OTHER INCOME			
Fees and commissions		962,523	1,340,563
Foreign exchange profit and securities trading gain		567,459	151,305
Net gains on disposals of investment securities measured at amortized cost	7	552,757	24
Other operating income	16	452,164	584,993
		2,534,903	2,076,885
OTHER EXPENSES			
Compensation and fringe benefits		2,348,654	2,147,319
Occupancy and equipment-related expenses		1,602,398	1,511,041
Other operating expenses	18	2,900,299	3,318,794
		6,851,351	6,977,154
INCOME BEFORE INCOME TAX		1,638,274	4,383,919
(BENEFIT FROM) PROVISION FOR INCOME TAX	19		
Current		518,326	307,046
Deferred	10	(1,241,371)	5,580
		(723,045)	312,626
NET INCOME FOR THE YEAR		2,361,319	4,071,293

(The notes on pages 1 to 62 are an integral part of these financial statements.)

BPI Family Savings Bank, Inc.

Statements of Total Comprehensive Income
For the years ended December 31, 2020 and 2019
(All amounts in thousands of Philippine Peso)

	Note	2020	2019
NET INCOME FOR THE YEAR		2,361,319	4,071,293
OTHER COMPREHENSIVE LOSS	15		
Item that may be subsequently reclassified to profit or loss			
Net change in fair value reserve on investments measured at FVOCI, net of tax effect		(54,387)	(18,303)
Item that will not be reclassified to profit or loss			
Remeasurement loss on defined benefit plan, net of tax effect		(505,268)	(210,532)
Total other comprehensive loss, net of tax effect		(559,655)	(228,835)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,801,664	3,842,458

(The notes on pages 1 to 62 are an integral part of these financial statements.)

BPI Family Savings Bank, Inc.

Statements of Changes in Capital Funds
For the years ended December 31, 2020 and 2019
(All amounts in thousands of Philippine Peso)

	Share capital (Note 15)	Reserves (Note 15)	Surplus (Note 15)	Accumulated other comprehensive loss (Note 15)	Total
Balance, January 1, 2019	1,000,000	439,162	32,190,250	(219,083)	33,410,329
Comprehensive income					
Net income for the year	-	-	4,071,293	-	4,071,293
Other comprehensive loss	-	-	-	(228,835)	(228,835)
Total comprehensive income for the year	-	-	4,071,293	(228,835)	3,842,458
Transactions with owner					
Cash dividends	-	-	(3,000,000)	-	(3,000,000)
Reserve for stock option plan	-	(13,812)	-	-	(13,812)
Balance, December 31, 2019	1,000,000	425,350	33,261,543	(447,918)	34,238,975
Comprehensive income					
Net income for the year	-	-	2,361,319	-	2,361,319
Other comprehensive loss	-	-	-	(559,655)	(559,655)
Total comprehensive income for the year	-	-	2,361,319	(559,655)	1,801,664
Transactions with owner					
Cash dividends	-	-	(3,000,000)	-	(3,000,000)
Reserve for stock option plan	-	2,046	-	-	2,046
Balance, December 31, 2020	1,000,000	427,396	32,622,862	(1,007,573)	33,042,685

(The notes on pages 1 to 62 are an integral part of these financial statements.)

BPI Family Savings Bank, Inc.

Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(All amounts in thousands of Philippine Peso)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		1,638,274	4,383,919
Adjustments for:			
Impairment losses		5,000,065	320,272
Depreciation and amortization		392,788	371,640
Share based compensation	15	2,046	(13,812)
Interest income		(17,243,262)	(16,882,916)
Interest expense	12,13,17	6,338,017	7,337,053
Interest received		17,344,774	16,742,546
Interest paid		(6,545,932)	(7,160,319)
(Increase) decrease in:			
Interbank loans receivable		(605)	3,735
Trading securities		2,010,619	1,335,941
Loans and advances, net		(4,652,673)	(13,085,248)
Assets held for sale, net		110,503	70,767
Other assets, net		12,381	154,112
Increase (decrease) in:			
Deposit liabilities		1,577,326	582,931
Manager's checks and demand drafts outstanding		(213,321)	301,771
Accrued taxes, interest and other expenses		156,053	(16,692)
Deferred credits and other liabilities		1,248,090	533,248
Net cash from (used in) operations		7,175,143	(5,021,052)
Income taxes paid		(627,372)	(530,031)
Net cash from (used in) operating activities		6,547,771	(5,551,083)
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in:			
Investment securities, net		(8,185,740)	(1,391,799)
Bank premises, furniture, fixtures and equipment, net		(77,992)	(88,181)
Investment property		-	(1,266)
Net cash used in investing activities		(8,263,732)	(1,481,246)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid	15	(3,000,000)	(3,000,000)
Payments for principal portion of lease liabilities	17	(157,777)	(156,135)
Proceeds from bills payable and other borrowed funds		35,260	9,519,728
Payments made on bills payable		-	(10,000)
Net cash (used in) from financing activities		(3,122,517)	6,353,593
NET DECREASE IN CASH AND CASH EQUIVALENTS		(4,838,478)	(678,736)
CASH AND CASH EQUIVALENTS	2		
January 1		32,255,161	32,933,897
December 31		27,416,683	32,255,161

Non-cash investing activities 9

(The notes on pages 1 to 62 are an integral part of these financial statements.)

BPI Family Savings Bank, Inc.

Notes to the Financial Statements
As at and for the years ended December 31, 2020 and 2019
(In the notes, all amounts are shown in thousands of Philippine Peso unless otherwise stated)

Note 1 - General Information

BPI Family Savings Bank, Inc. (the "Bank") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on July 1, 1985 primarily to engage in, and carry on, the general business of savings and mortgage banking in accordance with the provisions of the General Banking Act.

The Bank is a wholly-owned subsidiary of Bank of the Philippine Islands (BPI or Parent Bank), a commercial bank with an expanded banking license registered in the Philippines, which is also its ultimate parent.

The Bank's registered office address, which is also its principal place of business, is located at 6th Floor, BPI Family Bank Centre, Paseo de Roxas corner Dela Rosa Sts., Makati City.

As at December 31, 2020, the Bank has 2,872 regular employees (2019 - 3,083).

Coronavirus pandemic

On March 16, 2020, the Philippine Government declared the entire island of Luzon under an Enhanced Community Quarantine (ECQ) due to the increasing coronavirus disease (COVID-19) cases in the country. The ECQ mandated the closure of non-essential businesses and strict home quarantine which resulted in the slowdown of the economy. Measures are implemented to protect the health and safety of the Bank's employees, clients and partners, to support business continuity and to manage financial impact to a minimum. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. While banks are authorized to operate during ECQ, branch operations were sorely impacted by COVID-19, with 25% of the branches operating on a skeletal basis during the beginning of the lockdown. With the transition to general community quarantine (GCQ) on June 1, 2020, branch operations have been back to 100%. At this stage, the Bank deems it prudent to review its branch network strategy given the acceleration in digital adoption by its clients and other considerations.

While quarantine measures over highly urbanized cities in the National Capital Region (NCR) were relaxed following the proclamation of a modified enhanced community quarantine (MECQ) effective May 16, 2020, and subsequently, a GCQ effective June 1, 2020, operations across various industries remain below full capacity in these areas.

Effect of the suspension of loan payments mandated by the Bayanihan Acts I and II

On March 24, 2020, the Congress passed Republic Act No. 11469 or the Bayanihan to Heal as One Act (Bayanihan Act I) into law, which conferred emergency powers to the President of the Philippines. Section 4(aa) of Bayanihan Act I directed all banks to implement a thirty (30)-day grace period for the payment of all loans falling due within the ECQ period without interests, penalties, and other charges. Under this law, persons with multiple loans were granted a grace period of 30 days for each and every loan.

The following were the reprieve measures issued by the government through the Implementing Rules and Regulations (IRR) of Section 4(aa) of Bayanihan Act I for all loans regardless of status with payments (e.g., principal and/or interest) falling due within the ECQ/MECQ period (March 17, 2020 to May 31, 2020, or as extended):

- implementation of mandatory grace period to extend payment due dates of loans;
- non-imposition of interest on interest and waiver of fees and charges for non-payment;
- non-imposition of documentary stamp tax on credit extensions; and
- payment on a staggered basis for accrued interest on implemented mandatory grace period.

The status of the loans prior to the grant of the mandatory grace period and/or extension of maturity dates or payment due dates were retained. The Bank monitored non-performing loans (NPL) internally: 1) based on aging of accounts without the grace period and 2) aging with grace period, as the grant of the grace period may have artificially understated the actual NPL levels.

On September 11, 2020, the President of the Philippines signed into law Republic Act No. 11494 or the Bayanihan to Recover as One Act (Bayanihan Act II), in view of the continuing rise of COVID-19 cases and the ensuing economic disruption brought about by the pandemic. Under Section 4(uu) of Bayanihan Act II, all banks are directed to implement a mandatory one-time sixty (60)-day grace period for the payment of all existing, current, and outstanding loans falling due on or before December 31, 2020, without incurring interest on interest, penalties, fees, or other charges. The amounts falling due within the 60-day grace period may be settled in full after the 60-day grace period, or on a staggered basis until December 31, 2020, or as may be agreed upon by the parties.

While Bayanihan Acts I and II both provide moratorium on the payment of eligible loans, they differ in the qualification of eligible loans, the number of days provided as grace period and the allowable payment schemes.

As a result of the COVID-19 pandemic, the Bank has seen an increase in the level of NPL attributable to the temporary/permanent closure of certain businesses, suspended business operations and limited travel and exchange of goods. The actual delinquency status or effect on the NPL levels across different products became evident in the last quarter of 2020 after the lapse of the Bayanihan Act I and may be more pronounced in the early quarters of 2021 considering the effect of Bayanihan Act II relief measures.

Approval and authorization for issuance of financial statements

These financial statements have been approved and authorized for issuance by the Board of Directors on March 17, 2021.

Note 2 - Cash and Cash Equivalents

The account at December 31 consists of:

	Notes	2020	2019
Cash and other cash items		1,004,339	1,034,938
Due from Bangko Sentral ng Pilipinas	3	17,846,031	23,538,280
Due from other banks		4,935,660	4,716,194
Interbank loans receivable and securities purchased under agreements to resell (with maturity of three months or less)	4	3,630,653	2,965,749
		27,416,683	32,255,161

Interest income earned on Due from other banks for the year ended December 31, 2020 amounts to P2,020 (2019 - P2,426).

Cash and cash equivalents are classified as current as at December 31, 2020 and 2019.

Note 3 - Due from Bangko Sentral ng Pilipinas (BSP)

The account at December 31 consists of:

	2020	2019
Demand deposit account	8,346,031	9,128,280
Overnight deposit facility (ODF)	9,500,000	2,410,000
Term deposit facility (TDF)	-	12,000,000
	17,846,031	23,538,280

Total interest earned on due from BSP for the year ended December 31, 2020 amounts to P337,449 (2019 - P238,114).

Due from BSP is classified as current as at December 31, 2020 and 2019.

Note 4 - Interbank Loans Receivable and Securities Purchased under Agreements to Resell (SPAR)

The account at December 31 consists of transactions with:

	2020	2019
BSP	3,630,653	2,965,749
Accrued interest receivable	605	1,647
	3,631,258	2,967,396

Interbank loans receivable and SPAR maturing within 90 days from the date of acquisition amounting to P3,630,653 as at December 31, 2020 (2019 - P2,965,749) are classified as cash equivalents in the statement of cash flows (Note 2).

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

The range of average effective interest rates of interbank loans receivable for the year ended December 31, 2020 is 2.00% to 4.00% (2019 - 4.06% to 5.06%).

Interest income earned on Interbank loans receivable and SPAR for the year ended December 31, 2020 amounts to P88,571 (2019 - P533,000).

Interbank loans receivable and SPAR are classified as current as at December 31, 2020 and 2019.

Note 5 - Financial Assets at Fair Value Through Profit or Loss (FVTPL)

In 2020, the Bank disposed of its entire portfolio of financial assets at FVTPL resulting in a net gain of P20,277. Disposals of financial assets at FVTPL in 2019 resulted in a net gain of P37,118.

The account at December 31, 2019 consists of government debt instruments amounting to P2,012,907. Interest income earned from financial assets at FVTPL for the year ended December 31, 2020 amounts to P1,887 (2019 - P4,393).

The Bank's FVTPL are all classified as current as at December 31, 2019.

Note 6 - Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)

Details of financial assets at FVOCI as at December 31 consist of:

	2020	2019
Debt securities		
Government securities	6,690,685	2,850,699
Accrued interest receivable	42,267	15,609
	6,732,952	2,866,308
Equity securities		
Listed	49,436	53,760
Unlisted	20,233	23,733
	69,669	77,493
Total	6,802,621	2,943,801

The Bank did not recognize any impairment charge against financial assets at FVOCI for the years ended December 31, 2020 and 2019.

The Bank has designated a small portfolio of equity securities from listed and unlisted private corporations as financial assets at FVOCI. The Bank 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.

Financial assets at FVOCI are classified as follows:

	2020	2019
Current (within 12 months)	95,679	1,331,987
Non-current (over 12 months)	6,706,942	1,611,814
	6,802,621	2,943,801

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

	2020	2019
Peso-denominated	2.26 - 4.15	1.77 - 4.63
US dollar-denominated	0.61 - 2.42	1.58 - 3.70

Interest income earned from financial assets at FVOCI for the year ended December 31, 2020 amounts to P234,527 (2019 - P70,152).

Note 7 - Investment Securities at Amortized Cost, net

Details of the account as at December 31 are as follows:

	2020	2019
Government debt securities	23,634,882	18,792,159
Commercial papers of private companies	390,654	934,186
	24,025,536	19,726,345
Accrued interest receivable	207,554	322,968
	24,233,090	20,049,313
Allowance for impairment	(51)	(3)
	24,233,039	20,049,310

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

	2020	2019
Current (within 12 months)	12,430,834	3,612,227
Non-current (over 12 months)	11,802,256	16,437,086
	24,233,090	20,049,313

The range of average effective interest rates of the Bank's investment securities at amortized cost for the years ended December 31 follows:

	2020	2019
Peso-denominated	3.36 - 4.29	3.51 - 4.31
Foreign currency-denominated	3.21 - 4.13	2.76 - 3.64

In 2020, the Bank recognized a net gain on derecognition of P552,757, due mainly to its disposal of a portfolio of debt securities to manage unanticipated credit and business risks caused by the COVID-19 pandemic. In 2019, the Bank sold an insignificant amount of debt securities, which resulted in a gain of P24.

Interest income earned from investment securities at amortized cost for the year ended December 31, 2020 amounts to P923,082 (2019 - P737,862).

Critical accounting judgment - Classification of investment securities at amortized cost

The Bank classifies its financial assets at initial recognition as to whether it will be subsequently measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss. The Bank 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 Bank determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest (SPPI). If the instrument fails the SPPI test, it will be measured at fair value through profit or loss.

Note 8 - Loans and Advances, net

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

	2020	2019
Corporate loans		
Large corporate customers	18,231,399	15,027,319
Small and medium enterprises	17,152,052	17,244,259
Retail loans		
Real estate mortgages	138,685,793	135,130,180
Auto loans	51,043,144	53,788,821
Credit cards	2,370,828	2,314,754
Others	665	2,562
	227,483,881	223,507,895
Accrued interest receivable	2,418,348	2,407,759
Unearned discount/income	(170,756)	(169,524)
	229,731,473	225,746,130
Allowance for impairment	(10,094,616)	(5,923,662)
	219,636,857	219,822,468

Loans and advances are expected to be realized as follows:

	2020	2019
Current (within 12 months)	24,084,081	27,721,166
Non-current (over 12 months)	205,647,392	198,024,964
	229,731,473	225,746,130

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:

	2020	2019
Secured loans		
Real estate mortgage	123,163,454	137,629,258
Chattel mortgage	51,811,293	54,922,626
Others	1,962,279	2,222,761
	176,937,026	194,774,645
Unsecured loans	50,376,099	28,563,726
	227,313,125	223,338,371

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

There are no loans and advances at December 31, 2020 and 2019 used as security for other borrowed funds (Note 13).

The range of average effective interest rates of loans and advances of the Bank for the years ended December 31 follows:

	2020	2019
Real estate mortgages	6.10 - 6.76	6.02 - 6.91
Auto loans	8.82 - 9.61	8.25 - 10.60
Commercial loans	5.83 - 8.54	5.25 - 15.17
Credit cards	11.48 - 20.70	13.67 - 18.12

Interest income earned on loans and advances for the year ended December 31, 2020 amounts to P15,656 million (2019 - P15,297 million).

Note 9 - Bank Premises, Furniture, Fixtures and Equipment, net

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

	2020			
	Land	Buildings and leasehold improvements	Furniture, fixtures and equipment	Total
Cost				
January 1, 2020	351,753	1,864,463	1,321,020	3,537,236
Additions	-	23,497	99,395	122,892
Disposals	(6,184)	(3,653)	(99,415)	(109,252)
Transfers	-	173	-	173
Other changes (Note 17)	-	344,351	-	344,351
December 31, 2020	345,569	2,228,831	1,321,000	3,895,400
Accumulated depreciation and amortization				
January 1, 2020	-	664,773	1,107,954	1,772,727
Depreciation	-	42,975	99,989	142,964
Amortization	-	11,759	-	11,759
Disposals	-	(2,110)	(54,977)	(57,087)
Other changes (Note 17)	-	233,484	-	233,484
December 31, 2020	-	950,881	1,152,966	2,103,847
Net book value, December 31, 2020	345,569	1,277,950	168,034	1,791,553

	2019			
	Land	Buildings and leasehold improvements	Furniture, fixtures and equipment	Total
Cost				
January 1, 2019	351,753	921,787	1,348,183	2,621,723
Adoption of PFRS 16 (Note 17)	-	876,259	-	876,259
January 1, 2019, as restated	351,753	1,798,046	1,348,183	3,497,982
Additions	-	72,338	92,482	164,820
Disposals	-	(5,921)	(119,645)	(125,566)
December 31, 2019	351,753	1,864,463	1,321,020	3,537,236
Accumulated depreciation and amortization				
January 1, 2019	-	416,029	1,037,825	1,453,854
Depreciation	-	243,972	118,592	362,564
Amortization	-	5,236	-	5,236
Disposals	-	(464)	(48,463)	(48,927)
December 31, 2019	-	664,773	1,107,954	1,772,727
Net book value, December 31, 2019	351,753	1,199,690	213,066	1,764,509

Following the adoption of Philippine Financial Reporting Standard (PFRS) 16, *Leases*, on January 1, 2019 the Bank has recognized right-of-use assets from long-term leases pertaining to its office premises (Note 17).

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 17.

Depreciation and amortization are included as part of Occupancy and equipment-related expenses in the statement of income. There were no impairment losses recognized for the years ended December 31, 2020 and 2019 pertaining to Bank premises, furniture, fixtures and equipment.

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

The Bank 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 Bank 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 Bank 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 10 - Deferred Income Taxes

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

	2020	2019
Allowance for impairment	3,461,169	2,166,422
Pension liability	331,366	142,237
Accrued performance bonus	38,708	57,943
Minimum corporate income tax (MCIT)	-	99,506
Net operating loss carryover (NOLCO)	-	53,683
Others	54,231	14,547
	3,885,474	2,534,338

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

	2020	2019
At January 1	2,534,338	2,364,282
Amounts credited (charged) to statement of income	1,241,371	(5,580)
Amounts credited to other comprehensive income	209,271	76,130
(Application) recognition of MCIT	(99,506)	99,506
At December 31	3,885,474	2,534,338

The deferred tax charge for the years ended December 31 in the statement of income comprises the following temporary differences:

	2020	2019
Allowance for impairment	1,294,748	30,888
Others	(53,377)	(25,308)
	1,241,371	5,580

The deferred tax charge in other comprehensive income pertains to remeasurement on pension obligation.

The Bank recognized deferred income tax asset on NOLCO amounting to P53,683 for the year ended December 31, 2019 due to the expectation that it will be able to generate sufficient taxable income to take full advantage of the related tax benefits within the prescribed period. The NOLCO incurred in 2019 was fully utilized in 2020.

The Bank also recognized deferred income tax asset on excess MCIT over regular corporate income tax amounting to P99,506 for the year ended December 31, 2019. The MCIT was fully utilized in 2020.

Critical accounting judgment - Realization of deferred income tax assets

Management reviews at each reporting date the carrying amounts of deferred income tax assets. The carrying amount of deferred income 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 of the deferred income tax assets to be utilized.

Note 11 - Other Assets, net

The account at December 31 consists of:

	2020	2019
Accounts receivable	330,968	277,070
Prepayments	229,693	279,336
Deferred charges	98,265	30,869
Documentary and postage stamps	95,860	144,914
Deposits on leased properties and public utilities	72,055	67,630
Creditable withholding tax	40,204	34,590
Accrued interest, fees and receivables	1,187	21,329
Miscellaneous assets	136,900	186,615
	1,005,132	1,042,353
Allowance for impairment	(133,790)	(76,597)
	871,342	965,756

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

Miscellaneous assets mainly consist of receivables still for tagging to specific client accounts. These have been subsequently posted to client accounts a day after the reporting date.

Allowance for impairment as at December 31, 2020 and 2019 mainly pertains to accounts receivable.

The changes in the allowance for impairment at December 31 are as follows:

	2020	2019
At January 1	76,597	68,795
Provision for impairment losses	61,704	9,045
Write-off	(4,511)	(1,243)
At December 31	133,790	76,597

Other assets are classified as follows:

	2020	2019
Current (within 12 months)	1,002,374	1,038,911
Non-current (over 12 months)	2,758	3,442
	1,005,132	1,042,353

Note 12 - Deposit Liabilities

The account at December 31 consists of:

	2020	2019
Demand	16,214,460	14,603,700
Savings	115,078,353	97,463,339
Time	103,289,835	120,938,265
	234,582,648	233,005,304

The above deposit liabilities include deposits placed by related parties (Note 21).

Related interest expense on deposit liabilities for the years ended December 31 is broken down as follows:

	2020	2019
Demand	52,825	61,969
Savings	839,214	954,100
Time	4,946,766	6,244,003
	5,838,805	7,260,072

Deposit liabilities are expected to be settled as follows:

	2020	2019
Current (within 12 months)	51,372,960	87,237,269
Non-current (over 12 months)	183,209,688	145,768,035
	234,582,648	233,005,304

BSP reserve requirement

Under the current and existing BSP regulations, the Bank should comply with a minimum reserve requirement on deposit and deposit substitute liabilities in local currency.

In 2019, the reserve ratio decreased to 4% from 8% following the BSP's decision to reduce the requirements. In 2020, the BSP approved the further reduction in reserves which brought the requirement down to 3% for thrift banks effective July 31, 2020 by virtue of BSP Circular 1092.

Reserves must be set aside in deposits with the BSP. As at December 31, 2020, the reserves (included in Due from BSP) amounted to P6,529,064 (2019 - P8,735,941). The Bank is in full compliance with the reserve requirement as at December 31, 2020 and 2019.

Note 13 - Other Borrowed Funds

The account at December 31, 2020 consists of other borrowed funds amounting to P9,544,988 (2019 - P9,509,728). On October 31, 2019, the BOD of the Bank approved the establishment of a Peso Bond Program in the aggregate amount of up to P35 billion. In line with the said program, on December 16, 2019, the Bank issued P9.6 billion with a coupon of 4.30% per annum, with interest payable quarterly and to mature on June 16, 2022.

Interest expense recognized for the year ended December 31, 2020 amounts to P449,670 (2019 - P18,384).

Note 14 - Deferred Credits and Other Liabilities

The account at December 31 consists of:

	Notes	2020	2019
Deferred credits		2,316,997	1,241,625
Accounts payable		1,250,976	1,108,097
Pension liability	20	1,104,553	407,917
Lease liabilities	17	891,556	716,913
Sundry credits		200,666	375,723
Dormant and unclaimed balances		151,468	99,175
Withholding tax payable		129,138	130,308
Due to the Treasurer of the Philippines		116,089	116,079
SSS, Medicare and Employees' Compensation contribution payable		6,809	7,233
Rental deposit		3,981	3,667
Philhealth contribution payable		2,567	2,280
Bills purchased - contra		956	2,617
Miscellaneous liabilities		365,583	393,197
		6,541,339	4,604,831

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.

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

Following the adoption of PFRS 16 on January 1, 2019, the Bank recognized lease liabilities which have been measured at the present value of the remaining lease payments using the applicable incremental borrowing rates adopted by the Bank (Note 17).

Sundry credits pertain to collections received as at year-end still for application against the related account. These have cleared a day after the reporting date.

Dormant balances pertain to checks not yet negotiated to other parties for a period of more than a year but less than ten years. Balances which remained dormant for more than ten years are classified under unclaimed balances.

Miscellaneous liabilities include allowance for credit losses for undrawn committed credit facilities and unpaid amounts for various expenses as at year end.

Deferred credits and other liabilities are classified as follows:

	2020	2019
Current (within 12 months)	4,723,112	3,650,811
Non-current (over 12 months)	1,818,227	954,020
	6,541,339	4,604,831

Note 15 - Capital Funds

(a) Share capital (amounts per share are in absolute figures)

Details of share capital at December 31, 2020 and 2019 follow:

	Number of shares	Amount (In thousands)
Authorized common shares (at P100 par value per share)	20,000,000	2,000,000
Issued common shares	10,000,000	1,000,000

(b) Reserves

Reserves at December 31 consist of:

	2020	2019
Reserve for trust business	400,000	400,000
Reserve for self-insurance	16,650	16,650
Amortization of employee stock option plan	10,746	8,700
	427,396	425,350

The Bank's application for the reversal of reserve for trust business is still subject for approval of the BSP as at December 31, 2020.

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.

(c) Accumulated other comprehensive loss

Accumulated other comprehensive loss pertains to fair value reserves on FVOCI and remeasurement gain or loss on defined benefit plan. The movements in the account for the years ended December 31 are summarized as follows:

	2020	2019
Fair value reserve on FVOCI		
At January 1	(61,171)	(42,868)
Unrealized fair value loss before tax	(70,295)	(106,169)
Amount recycled to profit or loss	13,366	87,866
Deferred income tax effect	2,543	-
At December 31	(115,557)	(61,171)
Remeasurement losses on defined benefit plan, net		
At January 1	(386,747)	(176,215)
Remeasurement loss before tax	(711,997)	(286,662)
Deferred income tax effect	206,728	76,130
At December 31	(892,016)	(386,747)
	(1,007,573)	(447,918)

(d) Surplus

As at December 31, 2020, the Bank has its surplus higher than its paid-up capital by P31.6 billion (2019 - P32.2 billion). The Bank plans to use the surplus to fund the future growth of consumer loans in accordance with the Bank's performance targets and also to serve as buffer for higher portfolio risk amidst the COVID-19 pandemic. The Bank will evaluate plans to declare dividends in 2021 after considering the regulatory capital requirements.

On February 19, 2020, the BOD declared cash dividends amounting to P3.0 billion (P300 per share) out of the Bank's unrestricted surplus payable to shareholder of record as at February 29, 2020. The cash dividends were paid in March 2020.

On August 20, 2019, the BOD declared cash dividends equal to P3.0 billion (P300 per share) out of the Bank's unrestricted surplus payable to shareholder of record as at July 31, 2019. The cash dividends were paid in August 2019.

Note 16 - Other Operating Income

The account for the years ended December 31 consists of:

	2020	2019
Profit from assets sold and exchanged	278,390	360,715
Rental income	19,382	19,128
Miscellaneous income	154,392	205,150
	452,164	584,993

Miscellaneous income includes recoveries from charged-off assets and service income earned from the sale of properties of the Parent and its other subsidiaries, which were previously managed by the Bank. There are no direct operating expenses incurred by the Bank on its rental properties.

Note 17 - Leases

The Bank leases various office spaces. 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.

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

On January 1, 2019, the Bank adopted PFRS 16, *Leases*, which requires recognition of both right-of-use assets and lease liabilities arising from long-term leases.

The associated right-of-use assets, pertaining to office premises, were adjusted by the amount of any prepaid or accrued lease payments at initial recognition and by the depreciation recognized during the year. As at December 31, 2020, right-of-use assets amount to P784,580 (2019 - P673,713).

Additions to the right-of-use assets (Note 9) in 2020 aggregated P344,351.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate adopted by the Bank.

Movements in lease liabilities (included in Deferred credits and other liabilities) at December 31, follows:

	2020	2019
January 1	716,913	873,048
Principal and interest payments	(207,319)	(214,732)
Non-cash changes		
Additions during the year	340,926	-
Interest expense	49,542	58,597
COVID-19 related rent concessions	(8,506)	-
December 31	891,556	716,913

Maturity analysis of lease liabilities (included in Deferred credits and other liabilities) at December 31, 2020 follows:

	2020	2019
Current (within 12 months)	181,862	174,478
Non-current (over 12 months)	709,694	542,435
	891,556	716,913

The Bank's expenses related to leases and are booked as part of Occupancy and equiment-related expenses account in the statement of income for the years ended December 31 follow:

	2020	2019
Depreciation expense on right-of-use asset	233,484	202,546
Interest expense	49,542	58,597
Expense relating to short-term leases	6,905	8,249
Expense relating to leases of low-value assets that are not shown above as short-term leases	13,736	2,738
	303,667	272,130

The total cash outflow for principal portion of leases as at December 31, 2020 is P157,777 (2019 - P156,135).

The Bank 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 Bank recognized the following amounts for the year ended December 31, 2020:

	Amount
Rent concession (included in Miscellaneous income)	8,506
Rent escalation deferral	
Decrease in right-of-use assets	17,279
Decrease in lease liabilities	13,096

Critical accounting judgment - Determining the lease term

In determining the lease term, the Bank 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, the Bank:

- 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 Bank's weighted average incremental borrowing rates applied to the lease liabilities in 2020 range from 4.30% to 7.42% (2019 - 6.20% to 7.60%).

Note 18 - Other Operating Expenses

The account for the years ended December 31 consists of:

	2020	2019
Insurance	676,042	753,099
Regulatory examination fees	563,139	553,701
Agents' incentives	450,175	672,416
Shared operating expenses	351,159	359,671
Fines, penalties and other charges	181,232	151,197
Litigation expenses	173,013	232,718
Travel and communications	62,777	84,959
Taxes and licenses	57,527	51,778
Stationery and supplies used	41,008	44,610
Advertising and publicity	33,123	100,142
Others	311,104	314,503
	2,900,299	3,318,794

Shared operating expenses consist of audit and other operating costs incurred by the BPI Group and of which a portion is charged to the Bank.

Other operating expenses mainly consist of fees paid for representation and entertainment, membership fees and other charges.

Note 19 - Income Taxes

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

	2020		2019	
	Amount	Rate (%)	Amount	Rate (%)
Statutory income tax	491,482	30.00	1,315,176	30.00
Effect of items not subject to statutory tax rate				
Income subjected to lower tax rates	(22,662)	(1.38)	(145,949)	(3.33)
Tax-exempt income	(1,479,329)	(90.30)	(1,290,456)	(29.44)
Others	287,464	17.55	433,855	9.90
Actual (benefit from) provision for income tax	(723,045)	(44.13)	312,626	7.13

Note 20 - Retirement Plans

The Bank 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.

(i) Defined benefit retirement plan

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

The net defined benefit cost and contributions to be paid by the Bank are determined by an independent actuary.

Following are the amounts recognized based on recent actuarial valuation:

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

	2020	2019
Present value of defined benefit obligation	2,205,051	2,038,132
Fair value of plan assets	(1,100,498)	(1,630,215)
Pension liability	1,104,553	407,917

Pension liability is shown under Deferred credits and other liabilities (Note 14).

The movements in plan assets are summarized as follows:

	2020	2019
At January 1	1,630,215	1,359,732
Contributions	127,541	90,659
Interest income	86,560	119,385
Benefit payments	(423,074)	(197,463)
Remeasurement - return on plan assets	(320,744)	257,902
At December 31	1,100,498	1,630,215

The carrying values of the plan assets represent their fair values as at December 31, 2020 and 2019.

The plan assets at December 31 are comprised of the following:

	2020		2019	
	Amount	%	Amount	%
Debt securities	396,179	36	640,185	39
Equity securities	451,204	41	537,156	33
Others	253,115	23	452,874	28
	1,100,498	100	1,630,215	100

Others include investments in unit investment trust funds, mutual funds and cash and cash equivalents.

The plan assets of the unified retirement plan include investment in BPI's common shares with aggregate fair value of P390 million at December 31, 2020 (2019 - P421 million). An officer of the Parent Bank exercises the voting rights over the plan's investment in BPI's common shares.

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

	2020	2019
At January 1	2,038,132	1,497,552
Current service cost	108,119	73,931
Interest cost	113,524	131,485
Benefit payments	(423,074)	(197,463)
Remeasurement - changes in financial assumptions	374,154	512,082
Remeasurement - experience adjustments	(5,804)	20,545
At December 31	2,205,051	2,038,132

The Bank has no other transactions with the plan other than the contributions presented above for the years ended December 31, 2020 and 2019.

(b) Expense recognized in the statement of income for the years ended December 31:

	2020	2019
Current service cost	108,119	73,931
Net interest cost	26,964	12,100
	135,083	86,031

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

	2020	2019
Discount rate	3.95%	5.57%
Future salary increases	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 Bank 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 Bank. However, the Bank believes that due to the long-term nature of the pension liability and the strength of the Bank itself, the mix of debt and equity securities holdings of the plan is an appropriate element of the Bank's long term strategy to manage the plan efficiently.

The Bank 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 Bank'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 trustee, as necessary to better ensure the appropriate asset-liability matching.

The Bank contributes to the plan depending on the suggested funding contribution as calculated by an independent actuary. The Bank's expected retirement contribution for the year ending December 31, 2021 amounts to P234 million. The weighted average duration of the defined benefit obligation under the Bank's retirement plan as at December 31, 2020 is 12.15 years (2019 - 9.55 years).

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

	2020	2019
Up to one year	140,557	254,757
More than 1 year to 5 years	360,637	460,569
More than 5 years to 10 years	988,861	1,016,926
More than 10 years to 15 years	1,486,510	1,559,080
More than 15 years to 20 years	745,958	844,300
Over 20 years	5,121,035	4,986,076

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

2020

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 11.00%	Increase by 13.30%
Salary growth rate	1.0%	Increase by 13.00%	Decrease by 11.00%

2019

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 4.80%	Increase by 10.80%
Salary growth rate	1.0%	Increase by 5.20%	Decrease by 9.30%

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 project 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.

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

All non-unionized employees hired on or after January 1, 2016 are automatically under the defined contribution plan. Employees hired prior to the said 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:

	2020	2019
Fair value of plan assets	197,935	266,570
Present value of defined benefit obligation	(190,163)	(102,553)
	7,772	164,017
Effect of asset ceiling	(7,772)	(164,017)
	-	-

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

	2020	2019
At January 1	102,553	39,772
Current service cost	14,428	5,350
Interest cost	5,712	3,623
Benefits payment	(8,508)	(10,288)
Remeasurement - change in assumptions and experience adjustment	75,978	64,096
At December 31	190,163	102,553

The movements in the fair value of plan assets follow:

	2020	2019
At January 1	266,570	201,891
Contributions paid by the Bank	36,950	26,032
Interest income	15,229	18,392
Benefit payments	(8,509)	(10,288)
Remeasurement - return on plan assets	(112,305)	30,543
At December 31	197,935	266,570

Total retirement expense for the year ended December 31, 2020 under the defined contribution plan amounts to P14.4 million (2019 - P5.4 million).

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

	2020		2019	
	Amount	%	Amount	%
Debt securities	51,463	26	50,195	19
Equity securities	96,988	49	146,773	55
Others	49,484	25	69,602	26
	197,935	100	266,570	100

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

Contributions are determined based on the plan provisions. The expected contribution for the year ending December 31, 2021 amounts to P37.4 million.

The weighted average duration of the defined contribution retirement plan of the Bank as at December 31, 2020 is 24.36 years (2019 - 20.64 years).

Critical accounting estimate - Calculation of defined benefit obligation

The Bank estimates its pension benefit obligation and expense for defined benefit pension plans based on the selection of certain assumptions used by the actuaries in calculating such amounts. Those assumptions are described in this note and include, among others, the discount rate and future salary increase rate. The present value of the defined benefit obligations of the Bank at December 31, 2020 and 2019 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 Bank's assumptions are reflected as remeasurements in other comprehensive income. The assumptions are based on actual historical experience and external data regarding compensation and discount rate trends.

Note 21 - Related Party Transactions

In the normal course of business, the Bank transacts with its Parent Bank and other related entities and with its directors, officers, shareholders and related interest (DOSRI).

These transactions such as loans and advances, deposit arrangements, underwriting/advisory services and advances for operating expenses are made in the normal operating activities and have terms and conditions that are generally comparable to those offered to non-related parties and to similar transactions in the market.

Transactions with the Parent Bank include outsourcing of services related to the following activities: (a) anti-money laundering; (b) accounting and securities administration services; (c) deposit arrangements; and (d) loan operations, treasury operations, human resource-related functions and information systems.

A summary of significant related party transactions and outstanding balances as at and for the years ended December 31 is shown below:

	2020		
	Transactions for the year	Outstanding balances	Terms and conditions
Deposits to			
Parent	221,047	4,490,901	These are demand and savings deposits with an average interest rate of 0.12% to 0.56% for Peso - denominated deposits and average interest rates of 0.13% to 0.82% for US dollar-denominated deposits.
Deposits from			
Parent	308,014	758,512	These are demand and savings deposits bearing the following range of average interest rates: Demand - 0.19% to 0.37% Savings - 0.37% to 0.97% Time - 3.32% to 4.17% US dollar-denominated deposits - 0.11% to 0.55%
Fellow subsidiaries	(22,148)	7,233	
	285,866	765,745	
Receivable from			
Parent	(734)	556	- Unsecured
Fellow subsidiary	2,007	2,750	- Non-interest bearing - Collectible in cash at gross amount on demand
	1,273	3,306	
Accounts Payable			- Unsecured
Parent			- Non-interest bearing - Payable in cash at gross amount
	32,519	145,002	on demand
Contributions			
Retirement fund	164,491	-	See Note 20.

	2019		
	Transactions for the year	Outstanding balances	Terms and conditions
Deposits to			
Parent	1,432,526	4,269,854	These are demand and savings deposits with an average interest rate of 0.21% to 0.58% for Peso - denominated deposits and average interest rates of 0.82% to 1.13% for US dollar-denominated deposits.
Deposits from			
Parent	142,283	450,498	These are demand and savings deposits bearing the following range of average interest rates: Demand - 0.35% to 0.39% Savings - 0.88% to 0.95% Time - 4.20% to 4.84% US dollar-denominated deposits - 0.53% to 0.55%
Fellow subsidiaries	(34,837)	29,381	
	107,446	479,879	
Receivable from			
Parent	389	1,290	- Unsecured
Fellow subsidiary	321	743	- Non-interest bearing - Collectible in cash at gross amount on demand
	710	2,033	
Accounts Payable			
Parent	86,303	112,483	- Unsecured - Non-interest bearing - Payable in cash at gross amount on demand
Contributions			
Retirement fund	116,691	-	See Note 20.

There are no provisions for impairment needed to be recognized on amounts due from related parties as at December 31, 2020 and 2019. The Bank determines that the related amounts are fully collectible.

The aggregate amounts included in the determination of income before income tax that resulted from transactions with each class of related parties for the years ended December 31 are as follows:

	2020	2019
Interest income		
Parent Bank	11,460	78,290
Other income		
Parent Bank	34,701	51,332
Interest expense		
Parent Bank	-	253
Other expenses		
Parent Bank	1,024,511	922,444
Retirement benefits		
Key management personnel	5,516	5,144
Salaries, allowances and other short-term benefits		
Key management personnel	49,116	42,870
Directors' remuneration	6,090	5,770

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 within the BPI Group and the related outstanding balance is recognized as accounts payable. The Bank has no other transaction with its retirement fund other than the contributions made to the plan as discussed in Note 20.

Details of DOSRI loans as at December 31 are as follows:

	2020	2019
Outstanding DOSRI loans	1,406	2,091

Note 22 - Financial Risk and Capital 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 Bank, 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 Risk Management Head. The Risk Management Head is ultimately responsible in leading the formulation of risk management policies and methodologies in alignment with the overall business strategy of Bank, 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. The Bank'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 the 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 Bank manages are credit risk, market risk and liquidity risk.

22.1 Credit risk

The Bank 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 Bank'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 Bank, including in credit-related activities recorded in the banking, in investment securities in the trading books and off-balance sheet transactions.

22.1.1 Credit risk management

The Credit Policy and Risk Management (CPRM) division is responsible for the overall management of the Bank'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 Bank employs a range of policies and practices to mitigate credit risk. The Bank monitors its portfolio based on different segmentation to reflect the acceptable level of diversification and concentration. Credit concentration arises from substantial exposures to particular counterparties. Concentration risk in credit portfolios is inherent in banking and cannot be totally eliminated. However, said risk may be reduced by adopting proper risk control and diversification strategies to prevent undue risk concentrations from excessive exposures to particular counterparties, industries, countries or regions.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when 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 probability of default (PD) of an obligor or counterparty, the loss severity given a default event and the exposure at default (EAD).

A rigorous control framework is applied in the determination of expected credit loss (ECL) models. The Bank has policies and procedures that govern the calculation of ECL. All ECL models are regularly reviewed by the RMO 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 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 loss given default (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 Bank'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 dampen demand for auto and real estate collaterals and thus decrease market prices, so appropriate haircuts were applied on estimated recoveries from collaterals. These haircuts, however, did not increase the Bank's LGD as these were offset by the Bank's favorable collection experience.

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 Bank'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 Bank employs specific control and risk mitigation measures, some of which are outlined below:

Collateral or guarantees

One of the most traditional and common practice in mitigating credit risk is requiring security particularly for loans and advances. The Bank implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The Bank 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); and
- Mortgages over financial assets (e.g., guarantees).

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

The Bank'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 Bank since the prior period.

22.1.2 Credit risk rating

The Bank uses internal credit risk gradings that reflect its assessment of the PD of individual counterparties. The Bank 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 enable expert judgement 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 Bank 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* refers to 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* are accounts which need closer and frequent monitoring to prevent any further deterioration of the credit. 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* refers to accounts which exhibit probable to severe weaknesses wherein probability of non-repayment of loan obligation is ranging from high to extremely high severity.

The mapping of internal credit risk ratings (CRRs) with the Bank's standard account classification is shown below:

i. *Corporate and Small and medium enterprise (SME) loans*

The Bank'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 Bank uses the following set of classifications:

Classifications	Large Corporate loans	SME Loans
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
Special monitoring	CCC to C or based on prescribed dpd threshold	CCC to C or based on prescribed dpd threshold
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

ii. Retail loans

The Bank 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	Auto and housing loans
Standard monitoring	Current to 29 dpd	Current to 30 dpd
Special monitoring	30 to 89 dpd	31 to 90 dpd
Default	90 dpd and up or IL	>90, IL, Loss

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	Investment grade (IG) or Non-IG with no significant increase in credit risk (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 (accounts receivable, accrued interest and fees receivable, rental deposits), the Bank applies the simplified approach, as permitted by PFRS 9, in measuring ECL which uses a lifetime ECL 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.

22.1.3 Maximum exposure to credit risk

Loans and advances, net

Credit risk exposures relating to loans and advances are as follows:

	2020	2019
Corporate and SME loans, net	21,218,235	30,568,457
Retail loans, net	198,418,622	189,254,011
	219,636,857	219,822,468

The carrying amount of loans and advances above also represents the Bank'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

	Corporate and SMEs			
	2020			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	12,288,967	306,021	-	12,594,988
Special monitoring	2,597,210	4,573,819	-	7,171,029
Default	-	-	3,592,147	3,592,147
Gross carrying amount	14,886,177	4,879,840	3,592,147	23,358,164
Loss allowance	(250,163)	(222,224)	(1,667,542)	(2,139,929)
Carrying amount	14,636,014	4,657,616	1,924,605	21,218,235

	Corporate and SMEs			
	2019			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	22,043,041	3,159,457	-	25,202,498
Special monitoring	3,443,188	1,055,785	-	4,498,973
Default	-	-	2,570,107	2,570,107
Gross carrying amount	25,486,229	4,215,242	2,570,107	32,271,578
Loss allowance	(648,031)	(81,316)	(973,774)	(1,703,121)
Carrying amount	24,838,198	4,133,926	1,596,333	30,568,457

	Retail			
	2020			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	161,031,220	22,719,706	-	183,750,926
Special monitoring	18,431	7,317,881	-	7,336,312
Default	-	-	15,286,071	15,286,071
Gross carrying amount	161,049,651	30,037,587	15,286,071	206,373,309
Loss allowance	(2,244,446)	(1,949,009)	(3,761,232)	(7,954,687)
Carrying amount	158,805,205	28,088,578	11,524,839	198,418,622

	Retail			
	2019			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	175,874,726	6,177,127	-	182,051,853
Special monitoring	137,617	5,173,817	-	5,311,434
Default	-	-	6,111,265	6,111,265
Gross carrying amount	176,012,343	11,350,944	6,111,265	193,474,552
Loss allowance	(2,246,059)	(822,229)	(1,152,253)	(4,220,541)
Carrying amount	173,766,284	10,528,715	4,959,012	189,254,011

The tables below present the gross amount of loans and advances that were Stage 2 accounts.

	2020			2019		
	Corporate and SME loans	Retail loans	Total	Corporate and SME loans	Retail loans	Total
Current	4,713,092	16,977,254	21,690,346	3,997,692	2,401,315	6,399,007
Past due up to 30 days	36,929	6,172,890	6,209,819	41,182	3,884,986	3,926,168
Past due 31 - 90 days	129,819	6,887,443	7,017,262	176,368	5,064,643	5,241,011
Past due 91 - 180 days	-	-	-	-	-	-
Over 180 days	-	-	-	-	-	-
	4,879,840	30,037,587	34,917,427	4,215,242	11,350,944	15,566,186

Treasury and other investment securities

Credit risk exposures relating to treasury and other investment securities at gross amounts are as follows:

	2020	2019
Due from BSP	17,846,031	23,538,280
Due from other banks	4,935,660	4,716,194
Interbank loans receivable and SPAR	3,631,258	2,967,396
Financial assets at FVTPL	-	2,012,907
Financial assets at FVOCI	6,732,952	2,866,308
Investment securities at amortized cost, net	24,233,039	20,049,310
	57,378,940	56,150,395

Credit quality of treasury and other investment securities

	2020			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring				
Due from BSP	17,846,031	-	-	17,846,031
Due from other banks	4,935,660	-	-	4,935,660
Interbank loans receivable and SPAR	3,631,258	-	-	3,631,258
Financial assets at FVTPL	-	-	-	-
Financial assets at FVOCI	6,732,952	-	-	6,732,952
Investment securities at amortized cost	24,233,090	-	-	24,233,090
Gross carrying amount	57,378,991	-	-	57,378,991
Loss allowance	(51)	-	-	(51)
Carrying amount	57,378,940	-	-	57,378,940

	2019			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring				
Due from BSP	23,538,280	-	-	23,538,280
Due from other banks	4,716,194	-	-	4,716,194
Interbank loans receivable and SPAR	2,967,396	-	-	2,967,396
Financial assets at FVTPL	2,012,907	-	-	2,012,907
Financial assets at FVOCI	2,866,308	-	-	2,866,308
Investment securities at amortized cost	20,049,313	-	-	20,049,313
Gross carrying amount	56,150,398	-	-	56,150,398
Loss allowance	(3)	-	-	(3)
Carrying amount	56,150,395	-	-	56,150,395

Other financial assets

Other financial assets that are exposed to credit risk as at December 31 are as follows:

	2020	2019
Other financial assets		
Accounts receivable, net	203,777	207,072
Rental deposits	72,055	67,630
Accrued interest and fees receivable	1,187	21,329
Miscellaneous assets, net	9,002	14,332
	286,021	310,363

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

To measure the ECL, other financial assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of receivables over a period of 36 months and corresponding historical credit losses experienced within the said period. The impact of forward-looking variables on macroeconomic factors is considered insignificant in calculating ECL provisions for other financial assets.

Off-balance sheet items

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

	2020			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	5,501,170	126,389	-	5,627,559
Special monitoring	217,729	-	-	217,729
Default	-	-	3,393	3,393
Gross carrying amount	5,718,899	126,389	3,393	5,848,681
Loss allowance*	(22,266)	(9,658)	(408)	(32,332)
Carrying amount	5,696,633	116,731	2,985	5,816,349

**Included in Miscellaneous liabilities in Note 14*

	2019			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	6,397,933	233,463	-	6,631,396
Special monitoring	-	-	-	-
Default	-	-	3,339	3,339
Gross carrying amount	6,397,933	233,463	3,339	6,634,735
Loss allowance*	(18,101)	(12,756)	(512)	(31,369)
Carrying amount	6,379,832	220,707	2,827	6,603,366

**Included in Miscellaneous liabilities in Note 14*

22.1.4 Credit impaired loans and advances

The Bank closely monitors collaterals held for financial assets considered to be credit-impaired (Stage 3), as it becomes more likely that the Bank 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:

	2020		
	Gross exposure	Impairment allowance	Carrying amount
Credit-impaired assets			
Corporate and SME loans	3,592,147	(1,667,542)	1,924,605
Retail loans	15,286,071	(3,761,232)	11,524,839
Total credit-impaired assets	18,878,218	(5,428,774)	13,449,444
Fair value of collaterals	13,657,725		

	2019		
	Gross exposure	Impairment allowance	Carrying amount
Credit-impaired assets			
Corporate and SME loans	2,570,107	(973,774)	1,596,333
Retail loans	6,111,265	(1,152,253)	4,959,012
Total credit-impaired assets	8,681,372	(2,126,027)	6,555,345
Fair value of collateral	5,112,353		

The Bank acquires assets by taking possession of collaterals held as security for loans and advances. As at December 31, 2020, the Bank's foreclosed collaterals have carrying amount of P2.5 billion (2019 - P2.7 billion). The related foreclosed collaterals have aggregate fair value of P5.6 billion (2019 - P5.1 billion) and are classified under Level 2 of the fair value hierarchy. The Bank uses the market data approach in determining the fair value of foreclosed collaterals. Foreclosed collaterals include real estate (land, building, and improvements), auto and equity securities. Repossessed properties are sold as soon as practicable and are classified as "Assets held for sale" in the statement of condition.

22.1.5 Loss allowance

The loss allowance recognized in the period is affected 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.

	Corporate and SMEs			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance, January 1, 2020	648,031	81,316	973,774	1,703,121
Provision for impairment for the year				
Transfers:				
Transfer from Stage 1	(199,591)	181,521	25,716	7,646
Transfer from Stage 2	1,846	(20,141)	-	(18,295)
Transfer from Stage 3	-	-	-	-
New financial assets originated	262,298	-	-	262,298
Financial assets derecognized during the period	(39,328)	(12,145)	(128,632)	(180,105)
Changes in assumptions and other movements in provision	(1,619)	(189)	358,869	357,061
	23,606	149,046	255,953	428,605
Write-offs and other movements	(421,474)	(8,138)	437,815	8,203
Loss allowance, December 31, 2020	250,163	222,224	1,667,542	2,139,929

	Corporate and SMEs			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance, January 1, 2019	568,602	70,461	1,518,611	2,157,674
Provision for impairment for the year				
Transfers:				
Transfer from Stage 1	(203,575)	58,556	279,627	134,608
Transfer from Stage 2	3,019	(17,003)	35,629	21,645
Transfer from Stage 3	3,661	1,087	(87,978)	(83,230)
New financial assets originated	221,160	-	-	221,160
Financial assets derecognized during the period	(113,510)	(11,424)	(352,355)	(477,289)
Changes in assumptions and other movements in provision	153,323	(14,736)	26,210	164,797
	64,078	16,480	(98,867)	(18,309)
Write-offs and other movements	15,351	(5,625)	(445,970)	(436,244)
Loss allowance, December 31, 2019	648,031	81,316	973,774	1,703,121

	Retail			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance, January 1, 2020	2,246,059	822,229	1,152,253	4,220,541
Provision for impairment for the year				
Transfers:				
Transfer from Stage 1	(409,700)	1,486,641	1,526,568	2,603,509
Transfer from Stage 2	20,651	(361,259)	633,891	293,283
Transfer from Stage 3	1,050	31,283	(67,517)	(35,184)
New financial assets originated	904,711	-	-	904,711
Financial assets derecognized during the period	(37,141)	(50,936)	(77,886)	(165,963)
Changes in assumptions and other movements in provision	749,451	(10,382)	79,882	818,951
	1,229,022	1,095,347	2,094,938	4,419,307
Write-offs and other movements	(1,230,635)	31,433	514,041	(685,161)
Loss allowance, December 31, 2020	2,244,446	1,949,009	3,761,232	7,954,687

	Retail			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance, January 1, 2019	2,200,676	743,328	974,517	3,918,521
Provision for impairment for the year				
Transfers:				
Transfer from Stage 1	(269,520)	532,590	396,420	659,490
Transfer from Stage 2	22,015	(417,671)	188,363	(207,293)
Transfer from Stage 3	2,980	30,097	(145,236)	(112,159)
New financial assets originated	454,359	26	4	454,389
Financial assets derecognized during the period	(117,102)	(71,800)	(113,316)	(302,218)
Changes in assumptions and other movements in provision	(28,310)	(146,933)	(33,968)	(209,211)
	64,422	(73,691)	292,267	282,998
Write-offs and other movements	(19,039)	152,592	(114,531)	19,022
Loss allowance, December 31, 2019	2,246,059	822,229	1,152,253	4,220,541

Critical accounting estimate - Measurement of ECL for loans and advances

The measurement of the ECL for financial assets measured at amortized cost and FVOCI debt securities 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).

A number of significant judgements 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 scenarios

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 Bank has performed historical analyses and identified the key economic variables impacting credit risk and ECL 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, 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

At December 31, 2019

	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 (%)	6.3	6.6	6.6	7.2	0	4.2
Inflation Rate (%)	3.0	3.1	2.7	2.4	11.0	5.9
PDST-R2 5Y (%)	4.5	4.7	4.0	4.3	11.2	10.3
US Treasury 5Y (%)	2.5	2.5	2.8	3.4	1.4	1.3
Exchange Rate	52.300	54.874	51.550	52.856	56.970	62.653

Sensitivity analysis

The loan portfolios have different sensitivities to movements in macroeconomic variables, so the above three scenarios have varying impact on the ECL of Bank's portfolios. The allowance for impairment is calculated as the weighted average of ECL under the baseline, upside and downside scenarios. The impact of weighting these multiple scenarios was an increase in the allowance for impairment by P3.53 million from the baseline scenario as at December 31, 2020 (2019 - P23.89 million).

Transfers between stages

Transfers from Stage 1 and Stage 2 are based on the assessment of SICR from initial recognition, as described in Note 25.3.1. The impact of moving from 12 months ECL to lifetime ECL, 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 ECL. Assuming all Stage 2 accounts are considered as Stage 1, allowance for impairment would have decreased by P688 million as at December 31, 2020 (2019 - P28 million).

22.1.6 Concentrations of risks of financial assets with credit risk exposure

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

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Allowance	Total
Due from BSP	17,846,031	-	-	-	-	-	17,846,031
Due from other banks	4,935,660	-	-	-	-	-	4,935,660
Interbank loans receivable and SPAR	3,631,258	-	-	-	-	-	3,631,258
Financial assets at FVTPL		-	-	-	-	-	-
Financial assets at FVOCI	6,732,952	-	-	-	-	-	6,732,952
Investment securities at amortized cost, net	24,233,090	-	-	-	-	(51)	24,233,039
Loans and advances, net	1,095,659	53,961,738	1,557,806	149,538,422	23,577,848	(10,094,616)	219,636,857
Other assets, net							
Accounts receivable, net	-	-	-	-	330,968	(127,191)	203,777
Rental deposits	-	-	-	-	72,055	-	72,055
Accrued interest and fees receivable	-	-	-	-	1,187	-	1,187
Miscellaneous assets, net	-	-	-	-	15,601	(6,599)	9,002
At December 31, 2020	58,474,650	53,961,738	1,557,806	149,538,422	23,997,659	(10,228,457)	277,301,818

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Allowance	Total
Due from BSP	23,538,280	-	-	-	-	-	23,538,280
Due from other banks	4,716,194	-	-	-	-	-	4,716,194
Interbank loans receivable and SPAR	2,967,396	-	-	-	-	-	2,967,396
Financial assets at FVTPL	2,012,907	-	-	-	-	-	2,012,907
Financial assets at FVOCI	2,866,308	-	-	-	-	-	2,866,308
Investment securities at amortized cost, net	20,049,313	-	-	-	-	(3)	20,049,310
Loans and advances, net	684,755	56,338,302	1,754,465	143,318,879	23,649,729	(5,923,662)	219,822,468
Other assets, net							
Accounts receivable, net	-	-	-	-	277,070	(69,998)	207,072
Rental deposits	-	-	-	-	67,630	-	67,630
Accrued interest and fees receivable	-	-	-	-	21,329	-	21,329
Miscellaneous assets, net	-	-	-	-	20,931	(6,599)	14,332
At December 31, 2019	56,835,153	56,338,302	1,754,465	143,318,879	24,036,689	(6,000,262)	276,283,226

Loans and advances under the "Others" category pertain to loans granted to individual and retail borrowers belonging to various industry sectors.

22.2 Market risk

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

22.2.1 Market risk management

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

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

Value-at-Risk (VaR) measurement is an integral part of the Bank'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 the Bank's positions. To control the risk, the RMC sets risk limits for trading portfolios which are consistent with the Bank's goals, objectives, risk appetite, and strategies.

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

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

	2020	2019
Foreign fixed-income	7,929	5,418
Foreign exchange	1,241	956

22.2.2 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 Bank 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 Bank's exposure to more material foreign currency exchange rate risk primarily in US Dollar, shown in their Peso equivalent at December 31:

	2020	2019
Financial assets		
Cash and other cash items	172,798	202,131
Due from other banks	569,885	657,467
Financial assets at FVTPL	-	2,012,907
Financial assets at FVOCI - debt securities	3,259,194	1,246,364
Investment securities at amortized cost	9,862,537	9,273,480
Other assets, net		
Accounts receivable, net	1,850	30
Total financial assets	13,866,264	13,392,379
Financial liabilities		
Deposit liabilities	13,717,779	13,271,067
Manager's checks and demand drafts outstanding	3,226	2,197
Accrued interest and other payables	3,891	6,403
Other liabilities		
Miscellaneous liabilities	714	1,638
Total financial liabilities	13,725,610	13,281,305
Net on-balance sheet financial position	140,654	111,074

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

Year	Change in currency	Effect on pre-tax income (in thousands of Philippine Pesos)	Effect on equity (in thousands of Philippine Pesos)
2020	+/- 2.29%	+/- 3,221	+/- 2,255
2019	+/- 1.24%	+/- 1,377	+/- 964

22.2.3 Interest rate risk

Interest rate risk is the risk that the Bank will experience deterioration in its financial position brought about by movements in the absolute level of interest rates. Interest rate risk in the banking book arises from the Bank's core banking activities. The main source of this type of interest rate risk is re-pricing risk, which reflects the fact that the Bank's assets and liabilities have different maturities and are re-priced at different interest rates.

The Bank employs two methods to measure the potential impact of interest rate risk in the Bank's financial position - (i) one that focuses on the economic value of the banking book, and (ii) one that focuses on net interest earnings. The RMC sets limits on the two interest rate risk metrics which are monitored monthly by the Market Risk Division of the RMO.

Interest rate risk in the banking book

Interest rate risk in the banking book (IRRBB) is the current and prospective risk to the Bank's capital and earnings arising from the adverse movements in interest rates that affect its banking book positions. Excessive levels of interest rate risks in the banking book can pose a significant threat to the Bank's earnings and capital base. The Bank has established comprehensive risk management policies, procedures, risk limits structures and employs risk measurement models supported by a robust risk management system.

Interest rate exposures from core banking activities are measured using the following earnings-based and economic value-based models: (a) Earnings-at-Risk (EaR) measures the potential deterioration in net interest income over the next 12 months due to adverse movements in interest rates, and (b) Balance Sheet Value-at-Risk (BS VaR) measures the impact on the economic value of the future cash flows in the banking book due to changes in interest rates.

Earnings-at-Risk (EaR)

The EaR is built on repricing profile of the Bank and considers principal payments only. The Bank 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 rate moved against the Bank's position. As at December 31, 2020, the net interest income impact of movement in interest rates amounts to P278.33 million (2019 - P522 million).

Balance Sheet Value-at-Risk (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 Bank's expected net cash flows based on the current interest rates. As at December 31, 2020, the average BSVaR, computed on a monthly basis, for the banking book stood at P3,424 (2019 - P7,971).

The IRRBB levels are closely monitored against RMC-approved limits and results are reported and discussed regularly at the Management level through the Assets and Liabilities Committee and at the Board level through the 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 Bank 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 Bank'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 Bank 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 Bank.

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 Risk Management Head and noted by the RMC.

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

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
As at December 31, 2020					
Financial assets					
Due from BSP	-	-	-	17,846,031	17,846,031
Due from other banks	-	-	-	4,935,660	4,935,660
Interbank loans receivable and SPAR	-	-	-	3,631,258	3,631,258
Investment securities					
Financial assets at FVTPL	-	-	-	-	-
Financial assets at FVOCI - debt securities	-	-	-	6,732,952	6,732,952
Investment securities at amortized cost, net	-	-	-	24,233,039	24,233,039
Loans and advances, net	55,977,887	56,622,919	46,660,758	60,355,293	219,616,857
Other assets, net					
Accounts receivable, net	-	-	-	203,777	203,777
Rental deposits	-	-	-	72,055	72,055
Accrued interest and fees receivable	-	-	-	1,187	1,187
Miscellaneous assets, net	-	-	-	9,002	9,002
Total financial assets	55,977,887	56,622,919	46,660,758	118,020,254	277,281,818
Financial liabilities					
Deposit liabilities	81,193,427	76,956,481	76,432,740	-	234,582,648
Other borrowed funds	-	-	-	9,544,988	9,544,988
Manager's checks and demand drafts outstanding	-	-	-	1,644,409	1,644,409
Accrued interest and other expenses	-	-	-	1,743,264	1,743,264
Other liabilities					
Accounts payable	-	-	-	1,250,976	1,250,976
Others	-	-	-	2,829,588	2,829,588
Total financial liabilities	81,193,427	76,956,481	76,432,740	17,013,225	251,595,873
Total interest gap	(25,215,540)	(20,333,562)	(29,771,982)	101,007,029	25,685,945

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
As at December 31, 2019					
Financial assets					
Due from BSP	-	-	-	23,538,280	23,538,280
Due from other banks	-	-	-	4,716,194	4,716,194
Interbank loans receivable and SPAR	-	-	-	2,967,396	2,967,396
Investment securities					
Financial assets at FVTPL	-	-	-	2,012,907	2,012,907
Financial assets at FVOCI - debt securities	-	-	-	2,866,308	2,866,308
Investment securities at amortized cost, net	-	-	-	20,049,310	20,049,310
Loans and advances, net	63,316,964	44,397,935	51,301,708	60,805,861	219,822,468
Other assets, net					
Accounts receivable, net	-	-	-	207,072	207,072
Rental deposits	-	-	-	67,630	67,630
Accrued interest and fees receivable	-	-	-	21,329	21,329
Miscellaneous assets, net	-	-	-	14,332	14,332
Total financial assets	63,316,964	44,397,935	51,301,708	117,266,619	276,283,226
Financial liabilities					
Deposit liabilities	87,237,268	54,451,905	91,316,131	-	233,005,304
Other borrowed funds	-	-	-	9,509,728	9,509,728
Manager's checks and demand drafts outstanding	-	-	-	1,857,730	1,857,730
Accrued interest and other expenses	-	-	-	1,785,407	1,785,407
Other liabilities					
Accounts payable	-	-	-	1,108,097	1,108,097
Others	-	-	-	1,279,349	1,279,349
Total financial liabilities	87,237,268	54,451,905	91,316,131	15,540,311	248,545,615
Total interest gap	(23,920,304)	(10,053,970)	(40,014,423)	101,726,308	27,737,611

22.3 Liquidity risk

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

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

22.3.1 Liquidity risk management process

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

- day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or as borrowed by customers;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- monitoring liquidity gaps against internal and regulatory requirements;
- managing the concentration and profile of debt maturities; and
- performing periodic liquidity stress testing on the Bank'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 22.3.2) and the expected collection date of the financial assets. Sources of liquidity are regularly reviewed by the Bank to maintain a wide diversification by currency, geography, counterparty, product and term.

The Bank 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 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 Bank's liquidity risk profile to withstand significant liquidity shocks that may last over 30 calendar days. HQLA represent the Bank's stock of liquid assets that qualify for inclusion in the LCR which consist 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 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 and commitment facilities.

Net Stable Funding Ratio (NSFR)

On January 1, 2019, the Bank adopted BSP Circular No. 1007 issued in 2018 regarding the NSFR requirement. The NSFR is aimed at strengthening the 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 Bank. 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 Bank's liquidity risk profile. The Bank's capital, retail deposits and long-term debt are considered as stable funding sources whereas the Bank'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 Bank's NSFR is well-above the regulatory minimum of 100%.

The 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 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 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 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 Bank:

	2020	2019
Liquidity coverage ratio	179.43%	160.16%
Net stable funding ratio	144.25%	142.14%
Leverage ratio	9.96%	10.90%
Total exposure measure	285,182,263	284,755,682

The improvement in the Bank's LCR in 2020 was attained due to the growing portfolio of government securities while cash, reserves and claims on the BSP make up on average 43.15% of the total stock of HQLA.

22.3.2 Maturity profile - Non-derivative financial instruments

The table below presents the maturity profile of non-derivative financial instruments based on undiscounted cash flows, including future interest, which the Bank uses to manage inherent risk. The analysis into maturity grouping 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.

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
As at December 31, 2020				
Financial assets				
Cash and other cash items	1,004,339	-	-	1,004,339
Due from BSP	17,846,031	-	-	17,846,031
Due from other banks	4,935,660	-	-	4,935,660
Interbank loans receivable and SPAR	3,631,258	-	-	3,631,258
Financial assets at FVTPL	-	-	-	-
Financial assets at FVOCI	215,434	293,953	6,900,588	7,409,975
Investment securities at amortized cost	13,140,038	4,276,358	9,649,033	27,065,429
Loans and advances	58,491,126	80,429,111	174,251,183	313,171,420
Other assets				
Accounts receivable	330,968	-	-	330,968
Rental deposits	72,055	-	-	72,055
Accrued interest and fees receivable	1,187	-	-	1,187
Miscellaneous assets	9,002	-	-	9,002
Total financial assets	99,677,098	84,999,422	190,800,804	375,477,324
Financial liabilities				
Deposit liabilities	84,943,639	76,615,635	82,289,135	243,848,409
Other borrowed funds	412,800	10,202,000	-	10,614,800
Manager's checks and demand drafts outstanding	1,644,409	-	-	1,644,409
Accrued interest and other expenses	1,734,264	-	-	1,734,264
Other liabilities				
Accounts payable	1,250,976	-	-	1,250,976
Others	225,191	396,818	491,968	1,113,977
Total financial liabilities	90,211,279	87,214,453	82,781,103	260,206,835
Total maturity gap	9,465,819	(2,215,031)	108,019,701	115,270,489

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
As at December 31, 2019				
Financial assets				
Cash and other cash items	1,034,938	-	-	1,034,938
Due from BSP	23,569,859	-	-	23,569,859
Due from other banks	4,716,194	-	-	4,716,194
Interbank loans receivable and SPAR	2,967,726	-	-	2,967,726
Financial assets at FVTPL	2,016,413	-	-	2,016,413
Financial assets at FVOCI	1,275,551	42,116	1,741,883	3,059,550
Investment securities at amortized cost	4,059,894	7,315,723	12,017,981	23,393,598
Loans and advances	129,863,841	36,538,848	154,702,027	321,104,716
Other assets				
Accounts receivable	207,072	-	-	207,072
Rental deposits	67,630	-	-	67,630
Accrued interest and fees receivable	21,329	-	-	21,329
Miscellaneous assets	14,332	-	-	14,332
Total financial assets	169,814,779	43,896,687	168,461,891	382,173,357
Financial liabilities				
Deposit liabilities	88,213,402	57,893,450	102,538,557	248,645,409
Other borrowed funds	412,800	10,234,107	-	10,646,907
Manager's checks and demand drafts outstanding	1,857,730	-	-	1,857,730
Accrued interest and other expenses	1,785,407	-	-	1,785,407
Other liabilities				
Accounts payable	1,108,097	-	-	1,108,097
Others	571,343	238,763	303,671	1,113,777
Total financial liabilities	93,948,779	68,366,320	102,842,228	265,157,327
Total maturity gap	75,866,000	(24,469,633)	65,619,663	117,016,030

22.3.3 Fair value of financial assets and liabilities

The table below summarizes the carrying amount and fair value of financial assets and liabilities at December 31:

2020	Carrying amount	Fair value Level 1	Level 2	Total
Recurring measurements				
Financial assets				
Financial assets at FVOCI				
- Debt securities	6,732,952	3,473,758	3,259,194	6,732,952
- Equity securities	69,669	-	69,669	69,669
	6,802,621	3,473,758	3,328,863	6,802,621
Non-recurring measurements				
Assets held for sale, net	2,452,159	-	5,554,812	5,554,812

2020	Carrying amount	Fair value Level 1	Level 2	Total
Financial assets				
Cash and other cash items	1,004,339	-	1,004,339	1,004,339
Due from BSP	17,846,031	-	17,846,031	17,846,031
Due from other banks	4,935,660	-	4,935,660	4,935,660
Interbank loans receivable and SPAR	3,631,258	-	3,631,258	3,631,258
Investment securities at amortized cost	24,233,039	14,511,651	10,472,445	24,984,096
Loans and advances, net	219,636,857	-	297,492,040	297,492,040
Other assets, net				
Accounts receivable, net	203,777	-	203,777	203,777
Rental deposits	72,055	-	72,055	72,055
Accrued interest and fees receivable	1,187	-	1,187	1,187
Miscellaneous assets, net	9,002	-	9,002	9,002
Financial liabilities				
Deposit liabilities	234,582,648	-	229,428,531	229,428,531
Other borrowed funds	9,544,988	-	9,544,988	9,544,988
Manager's checks and demand drafts outstanding	1,644,409	-	1,644,409	1,644,409
Accrued interest and other expenses	1,780,894	-	1,780,894	1,780,894
Other liabilities				
Accounts payable	1,250,976	-	1,250,976	1,250,976
Others	2,829,588	-	2,829,588	2,829,588

2019	Carrying Amount	Fair value Level 1	Level 2	Total
Recurring measurements				
Financial assets				
Financial assets at FVTPL				
- Debt securities	2,012,907	2,012,907	-	2,012,907
Financial assets at FVOCI				
- Debt securities	2,866,308	1,611,814	1,254,494	2,866,308
- Equity securities	77,493	-	77,493	77,493
	4,956,708	3,624,721	1,331,987	4,956,708
Non-recurring measurements				
Assets held for sale, net	2,652,078	-	5,112,353	5,112,353

2019	Carrying amount	Fair value Level 1	Level 2	Total
Financial assets				
Cash and other cash items	1,034,938	-	1,034,938	1,034,938
Due from BSP	23,538,280	-	23,538,280	23,538,280
Due from other banks	4,716,194	-	4,716,194	4,716,194
Interbank loans receivable and SPAR	2,967,396	-	2,967,396	2,967,396
Investment securities at amortized cost	20,049,310	10,476,134	9,853,689	20,329,823
Loans and advances, net	219,822,468	-	225,969,626	225,969,626
Other assets, net				
Accounts receivable, net	207,072	-	207,072	207,072
Rental deposits	67,630	-	67,630	67,630
Accrued interest and fees receivable	21,329	-	21,329	21,329
Miscellaneous assets, net	14,332	-	14,332	14,332
Financial liabilities				
Deposit liabilities	233,005,304	-	233,005,304	233,005,304
Other borrowed funds	9,509,728	-	9,509,728	9,509,728
Manager's checks and demand drafts outstanding	1,857,730	-	1,857,730	1,857,730
Accrued interest and other expenses	1,785,407	-	1,785,407	1,785,407
Other liabilities				
Accounts payable	1,108,097	-	1,108,097	1,108,097
Others	1,279,349	-	1,279,349	1,279,349

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

Critical accounting estimate - Valuation of assets held for sale

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

In 2020, the Bank has recognized provision for impairment loss on its foreclosed assets amounting to P89 million (2019 - P45 million).

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

Critical accounting judgment - Classification of assets held for sale

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

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

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

(ii) Investment securities

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

(iii) Loans and advances

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

(iv) Financial liabilities

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

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

(v) Other financial assets/liabilities

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

22.4 Capital management

Capital management is understood to be a facet of risk management. The primary objective of the Bank is the generation of recurring acceptable returns to shareholder's capital. To this end, the Bank'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 Bank understands that it must maintain sufficient capital to absorb unexpected losses, to stay in business for the long haul, and to satisfy regulatory requirements. The Bank 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 Tier 1 (CET1) ratio and Tier 1 Capital ratios of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed. The minimum CAR remains at 10% which includes the capital conservation buffer.

The table below summarizes the CAR of the Bank under the Basel III framework for the years ended December 31, 2020 and 2019.

	2020	2019
Tier 1 capital	32,200,426	33,448,563
Tier 2 capital	1,578,188	1,517,847
Gross qualifying capital	33,778,614	34,966,410
Less: Regulatory adjustments/required deductions	3,794,097	2,405,600
Total qualifying capital	29,984,517	32,560,810
Risk weighted assets	185,044,808	177,806,371
CAR (%)	16.20	18.31
CET1 (%)	15.35	17.46

The Bank has fully complied with the CAR requirement of the BSP as at December 31, 2020 and 2019.

Note 23 - Commitments and Contingencies

At present, there are lawsuits and claims pending against the Bank. 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 Bank's financial position or financial performance.

The Bank is a defendant 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 Bank makes various commitments that are not presented in the financial statements. The Bank does not anticipate any material losses from these commitments.

Note 24 - Subsequent events

BPI and BFB Merger

On January 22, 2021, BPI announced that its BOD had approved on January 21, 2021, subject to shareholders and regulatory approvals, the plan to merge with the Bank, its wholly owned thrift bank subsidiary, with BPI as the surviving entity. The integration of both entities will provide considerable advantages to the customers and employees of BPI and the Bank, 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.

The BOD of BPI, in its meeting held on February 24, 2021, approved the following significant terms and conditions of the planned merger transaction, subject to shareholders and regulatory approvals:

- The Bank shall be merged with BPI, with BPI as the surviving corporation;
- The merger shall become effective upon the latter of (a) BSP approval and SEC issuance of the Certificate of Merger, and (b) January 1, 2022;
- Prior to the effective date, BPI and the Bank shall conduct their respective business in a manner substantially the same as previously conducted;
- Any fees and costs related to the merger shall be borne by BPI; and
- The basis of determining the exchange ratio.

Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

The CREATE bill which seeks to lower corporate income tax rates and to rationalize fiscal incentives had been approved by the House of Representatives on September 13, 2019 and by the Senate on the third and final reading on November 26, 2020. The bill was approved by the Bicameral Conference Committee on February 4, 2021 but has yet to be signed into law by the President of the Philippines. Under the CREATE bill, effective July 1, 2020, the more significant changes are as follows:

- Reduction of corporate income tax (CIT) rate to 20% applicable to domestic corporations with total net taxable income not exceeding P5,000,000 and with total assets not exceeding P100 Million (excluding land on which the business entity's office, plant and equipment are situated);
- Reduction of CIT rate to 25% shall be applicable to all other corporations subject to regular CIT; and,
- Minimum Corporate Income Tax (MCIT) rate shall also be amended to 1%, instead of 2%, for the period beginning July 1, 2020 until June 30, 2023.

Since the CREATE bill has not been substantively enacted by the time the Bank's financial statements were authorized for release, no disclosures were made in the Bank's financial statements to reflect the potential impact of the proposed changes in CIT rate.

Financial Institutions Strategic Transfer (FIST) Law

On February 16, 2021, Republic Act (RA) No. 11523, otherwise known as FIST, was signed into law. The law takes effect immediately after its publication in the Official Gazette and a newspaper in general circulation. Under this law, financial institutions' strategic transfer corporations (FISTC) will have the powers to invest in or acquire the non-performing assets (NPAs) of financial institutions and engage third parties to manage, operate, collect and dispose of NPAs acquired from a financial institution. The transfer of NPAs to a FISTC will be exempt from documentary stamp tax, capital gains tax, creditable withholding taxes and value-added tax. The Bank is still in the process of evaluating how they can avail the benefit from the provisions of the FIST Law.

Note 25 - 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 both years presented, unless otherwise stated.

25.1 Basis of preparation

The financial statements of the Bank 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 (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

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

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVTPL, financial assets at FVOCI, assets held for sale at the lower of cost and fair value less cost to sell and plan assets on pension plans measured at fair value.

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 Bank'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 Bank. 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

- Useful lives of bank premises, furniture, fixtures and equipment (Note 9)
- Calculation of defined benefit obligation (Note 20)
- Measurement of ECL for loans and advances (PFRS 9) (Note 22.1.5)
- Fair value of other financial instruments (Note 22.3.3)
- Valuation of assets held for sale (Note 22.3.3)

Critical accounting judgments

- Classification of investment securities at amortized cost (Note 7)
- Realization of deferred income tax assets (Note 10)
- Determining the lease term (Note 17)
- Determining the incremental borrowing rate (Note 17)
- Classification of assets held for sale (Note 22.3.3)

25.2 Changes in accounting policy and disclosures

(a) New amendments to existing standards adopted by the Bank

The Bank has adopted the following amendments to existing standards and the revised Conceptual Framework effective January 1, 2020:

- Amendments to PAS 1, "*Presentation of Financial Statements*", and PAS 8, "*Accounting Policies, Changes in Accounting Estimates and Errors*"

  The amendments clarify that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and; the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

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

- Amendments to PFRS 7, "*Financial Instruments: Disclosures*", and PFRS 9, "*Financial Instruments*"

  The amendments provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

  In assessing the hedge effectiveness of the cash flow hedges directly affected by the interest rate benchmark reform, the Bank assumed that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

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

- Revised Conceptual Framework for Financial Reporting

  The revised Framework includes the following changes:
  - increasing the prominence of stewardship in the objective of financial reporting;
  - reinstating prudence as a component of neutrality;
  - defining a reporting entity, which may be a legal entity, or a portion of an entity;
  - revising the definitions of an asset and a liability;
  - removing the probability threshold for recognition and adding guidance on derecognition;
  - adding guidance on different measurement basis; and
  - stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

  No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

  The adoption of the revised Framework did not have a material impact on the financial statements of the Bank.

- Amendments 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.

  The impact of the amendments to PFRS 16 in the financial statements of the Bank is summarized in Note 17.

(b) Amendments to existing standards not yet adopted by the Bank

The following amendments to existing standards are not mandatory for December 31, 2020 reporting period and have not been early adopted by the Bank:

- Interest Rate Benchmark Reform - Amendments to PFRS 9, "*Financial Instruments*", PAS 39, "*Financial Instruments: Recognition and Measurement*", 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, 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 Interbank Offered Rate (IBOR) reform and are economically equivalent) will not result in an immediate gain or loss in the statement of income.
  - Hedge accounting. The hedge accounting reliefs will allow most PFRS 9 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded.

  The Bank is currently in the process of assessing the impact of the amendments.

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

  The amendments to PAS 1 clarify that liabilities are classified as either current or non-current, 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).

- 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.

- 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.

- Annual Improvements to PFRS Standards 2018-2020

  The following improvements were finalized in May 2020:
  1. PFRS 9, "*Financial Instruments*", clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
  2. 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 Bank. There are also no new standards effective after December 31, 2020 that are expected to be relevant or would have a material impact on the financial statements of the Bank.

25.3 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 Bank recognizes a financial instrument in the statement of condition when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

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 rate 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 ECL 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 at initial recognition - the Bank 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 ECL in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial asset 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 income is calculated by applying the effective interest rate to their amortized cost (i.e., net of the ECL 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 Bank commits to purchase or sell the asset.

At initial recognition, the Bank 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 ECL allowance is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI 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 Bank 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.

25.3.1 Financial assets

<u>Classification and subsequent measurement</u>

The Bank classifies its financial assets in the following measurement categories: at FVTPL, at 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 Bank's business model for managing the asset and the cash flow characteristics of the asset.

Based on these factors, the Bank 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 ('SPPI'), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any ECL 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 receivables.

- *FVOCI*
  Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, 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 income and foreign exchange gains and losses on the instrument's amortized cost which are recognized in the statement 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 fair value through profit or loss. 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 statement of income within 'Foreign exchange profit and 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 Bank manages the assets in order to generate cash flows. That is, whether the Bank'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 Bank 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.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank 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 Bank 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 Bank subsequently measures all equity investments at FVTPL, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Bank'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 Bank's right to receive payments is established. Gains and losses on equity investments at FVTPL are included in "Foreign exchange profit and securities trading gain" in the statement of income.

Impairment of amortized cost and FVOCI financial assets

The Bank assesses impairment as follows:

- individually for loans that exceed specified thresholds. Where there is an objective evidence of impairment, individually assessed provisions will be recognized; and
- collectively for loans below the specified thresholds set 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.

ECL

The Bank assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost, FVOCI financial assets and with the exposure arising from loan commitments. The Bank 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.

PFRS 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 Bank.
- 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 Bank determines SICR based on prescribed benchmarks approved by the Board of 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 ECL that results from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on ECL on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with PFRS 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 Bank has no POCI financial assets as at December 31, 2020 and 2019.

For ECL 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 Bank 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, credit score or 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 favorable 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 22.1.2 for the description of special monitoring); and
- expert judgment for the other quantitative and qualitative factors which may result in SICR as defined by the Bank.

Measuring ECL - Inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or a 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. ECL 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" below), 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 Bank 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 Bank 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 a 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 Bank'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 LGD rates 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, LGD is typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. The LGD rates 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 PD and how collateral values change are monitored and reviewed regularly.

There have been no significant changes in estimation techniques or significant assumptions made 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 Bank incorporates historical and current information, and forecasts forward-looking events and key economic variables that are assessed to impact credit risk and ECL for each portfolio. Macroeconomic variables that affect a specific portfolio's non-performing loan rate(s) are determined through statistical modelling and the application of expert judgement. The Bank's economics team establishes possible global and domestic economic scenarios. With the use of economic theories and conventions, expert judgement 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 are disclosed in Note 22.1.5.

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 ECL. 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 Bank considers a financial instrument in default or credit-impaired, when it meets one or more of the following criteria:

(a) Quantitative criteria

The borrower is more than 90 days past due on its contractual payments (with the exception of credit cards loans where a borrower is required to be 90 days past due to be considered in default).

(b) 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 Bank 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 Bank's ECL calculations.

The Bank's definition of default is substantially consistent with the 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.

Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank 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 Bank 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 Bank 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 statement of income as a gain or loss on derecognition.

If the terms are not substantially different, the Bank 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 are treated in line with Bank's policies discussed above.

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 Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank 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 Bank:

- 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 Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Derecognition of financial assets measured at amortized cost

The hold-to-collect business model of the Bank provides instances wherein sales of financial assets at amortized cost are not deemed to be inconsistent with the objective of collecting contractual cash flows. These include but are not limited to:

- Sales irrespective of frequency and value which include those:
  - due to increase in the securities' credit risks and
  - made close to maturity and the proceeds approximate the collection of the remaining contractual cash flows;
- Sales irrespective of frequency but of significant value which include those:
  - attributable to an isolated event that is beyond the Bank's control, is non-recurring and could not have been reasonably anticipated by the Bank. (e.g. stress case scenario) and
  - changes in tax law that eliminates or significantly reduces the tax exempt status of interest on the security under the amortized cost category; and
- Sales that are insignificant in value both individually and in aggregate, even if frequent.

Write-off of financial assets

The Bank 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 Bank'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 Bank 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 the statement of income under Miscellaneous income in the period where the recovery transaction occurs.

25.3.2 Financial liabilities

Classification

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

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

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

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the statement of income and are reported as “Foreign exchange profit and securities trading gain”. The Bank has no financial liabilities that are designated at fair value through profit or loss.

(b) Other liabilities measured at amortized cost

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

Subsequent measurement and derecognition

Financial liabilities at fair value through profit or loss are subsequently carried at fair value. Other liabilities are subsequently measured at amortized cost using the effective interest rate 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 Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognized because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Loan commitments

Loan commitments are contracts in which the Bank is required to provide loans with pre-specified terms to customers. These contracts, which are not issued at below-market interest rate and are not settled net in cash or by delivering or issuing another financial instrument, are not recorded in the statement of condition. Loss allowance is calculated on these commitments as described in Note 22.1.3.

25.3.3 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 Bank 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. Further, this level also includes the fair values for investment properties, which are based on observable market data.

- 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. The Bank has no assets or liabilities classified under Level 3 as at December 31, 2020 and 2019.

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

(a) Financial instruments

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

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

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

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

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

Under PFRS 9, all investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities, if any, and irrevocable loan commitments correspond to their carrying amounts.

(b) Non-financial assets or liabilities

The Bank uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follow:

- Market approach - A valuation technique that uses observable inputs, such as prices, broker quotes and other relevant information generated by market transactions involving identical or comparable assets or group of assets.
- Income approach - A valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions.

The fair values of Bank's investment property (shown under Other assets) and foreclosed assets (shown as Assets held for sale) fall under level 2 of the fair value hierarchy, which are based on the selling prices of similar assets. The Bank has no non-financial assets or liabilities classified under Level 3 as at December 31, 2020 and 2019.

25.3.4 Interest income and expense

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

The effective interest rate 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 Bank 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.

25.3.5 Offsetting of financial instruments

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

As at December 31, 2020 and 2019, there are no financial assets and liabilities that have been offset.

25.4 Cash and cash equivalents

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

25.5 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 rate 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.

25.6 Bank premises, furniture, fixtures and equipment

Land and buildings comprise mainly of Bank’s 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 Bank 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, furniture, fixtures and equipment is calculated using the straight-line method to allocate the cost or residual values over the estimated useful lives of the assets, as follows:

Buildings	25-50 years
Furniture, fixtures and equipment	3-5 years

Leasehold improvements are amortized 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, 2020 and 2019.

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.

25.7 Intangible assets

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 their expected useful lives (three to five years). Computer software is included under Other assets, net in the statement of condition.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank 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.

25.8 Foreclosed assets

Assets foreclosed shown as Assets held for sale in the statement of condition are accounted for at the lower of cost and fair value less cost to sell similar to the principles of PFRS 5. The cost of assets foreclosed includes the carrying amount of the related loan. Impairment loss is recognized for any subsequent write-down of the asset to fair value less cost to sell. Foreclosed assets not classified as Assets held for sale are accounted for in any of the following classification using the measurement basis appropriate to the asset as follows:

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

25.9 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.

25.10 Borrowings and borrowing costs

The Bank's borrowings consist mainly of bills payable and other borrowed funds. Borrowings are recognized initially at fair value, being 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 rate 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 Bank has no qualifying asset as at December 31, 2020 and 2019.

Borrowings are 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 statement of income as other income.

25.11 Fees and commission income

The Bank applies PFRS 15 where revenue is recognized when (or as) the Bank 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 Bank satisfies the performance obligation and recognizes revenue over time. Otherwise, revenue is recognized at the point in time of transfer of 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 Bank 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 Bank 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 Bank 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 Bank 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.

25.12 Credit card income

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

The interchange fee represents the transaction price associated with the implied contract between the Bank and the merchant because it represents the amount of consideration to which the Bank 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 Bank and the merchant is satisfied upon performance and simultaneous consumption by the customer of the underlying service (i.e. purchase approval and payment remittance). Therefore, the interchange fee is recognized as revenue each time the Bank approves a purchase and remits payment to the merchant.

25.13 Foreign currency translation

(a) Functional and presentation currency

Items in the financial statements of the Bank 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 Bank's functional 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 fair value through profit or loss, are reported as part of the fair value gain or loss recognized under Trading gain/loss on securities 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) Income from foreign exchange trading

Foreign exchange gains and losses arising from trading of foreign currencies are recorded under Foreign exchange profit and securities trading gain 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.

25.14 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 Bank is established.

25.15 Provisions for legal or contractual obligations; Contingencies

Provisions are recognized when all of the following conditions are met: (i) the Bank 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 provision due to the passage of time is recognized as interest expense.

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

25.16 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 Bank 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 Bank reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

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 tax 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.

25.17 Employee benefits

(a) Short-term benefits

The Bank 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 Bank has a defined benefit plan that shares risks among entities within the BPI 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.

Remeasurement 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 entities within the BPI Group, which includes the Bank, 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 Bank also maintains a defined contribution plan that covers certain full-time employees. Under its defined contribution plan, the Bank pays fixed contributions based on the employees' monthly salaries. The Bank, 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 Bank 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 Bank determines 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 other comprehensive income.

(d) Share-based compensation

The Bank 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 Bank 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.

25.18 Capital funds

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

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

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

Surplus represents the accumulated profits of the Bank less any dividends declared.

25.19 Dividends on common shares

Dividends on common shares are recognized as a liability in the Bank's financial statements in the period in which the dividends are approved by the BOD.

25.20 Leases

25.20.1 Bank is the lessee

The Bank recognizes leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

Assets and liabilities arising from long-terms leases 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 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
- 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 the Bank's leases, the lessee's incremental borrowing rate is used, being the rate that the entity 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 Bank:
- 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 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 lease term on a straight-line basis.

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 Bank 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.

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 statement 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.

There have been no significant changes in estimation techniques or significant assumptions made from the time of the adoption of PFRS 16 on January 1, 2019 to the reporting date.

Lease modification

Lease modifications are accounted either as a separate lease or not a separate lease. The Bank 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 Bank:

- 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 Bank 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 Bank recognizes in profit or loss any gain or loss relating to the partial or full termination of the lease.

25.20.2 Bank is the lessor

The Bank (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 Miscellaneous assets under Other assets in the statement of condition. Rental income under operating leases is recognized in profit or loss on a straight-line basis over the period of the lease.

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.

The Bank has no finance lease as at December 31, 2020 and 2019.

25.21 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 a 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 shareholder. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

25.22 Comparatives

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

Note 26 - Supplemental 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 %):

	2020	2019
Return on average equity		
- Daily average[1]	7.02	11.80
- Simple average[2]	7.02	11.95
Return on average assets		
- Daily average[3]	0.81	1.46
- Simple average[4]	0.83	1.45
Net interest margin		
- Daily average[5]	3.92	3.60
- Simple average[6]	3.96	3.56

[1]Net 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, 2020 and 2019.
[2]Net 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, 2020 and 2019.
[3]Net income divided by average total assets as at period indicated. Average total assets is based on the daily average balance of total assets as at December 31, 2020 and 2019.
[4]Net income divided by average total assets as at period indicated. Average total assets is based on the year-on-year balance of total assets as at December 31, 2020 and 2019.
[5]Net 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, 2020 and 2019.
[6]Net 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, 2020 and 2019.

(ii) Description of capital instrument issued

The Bank considers its common shares as capital instrument for purposes of calculating its capital adequacy ratio as at December 31, 2020 and 2019.

(iii) Significant credit exposures

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

	2020	2019
Real estate, renting and other business	65.09	63.49
Consumer	23.49	24.96
Wholesale and retail trading	3.79	3.30
Manufacturing	0.68	0.78
Financial institutions	0.48	0.30
Agriculture and forestry	0.09	0.14
Others	6.38	7.03
	100.00	100.00

(iv) Breakdown of total loans

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

	2020	2019
Secured loans		
Real estate mortgage	123,163,454	137,629,258
Chattel mortgage	51,811,293	54,922,626
Others	1,962,279	2,222,761
	176,937,026	194,774,645
Unsecured loans	50,376,099	28,563,726
	227,313,125	223,338,371

Other collaterals include hold-out deposits, government securities and bonds, and deposit substitutes.

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

	2020			2019		
	Performing	Non-performing	Total	Performing	Non-performing	Total
Corporate loans	14,820,386	4,071,192	18,891,578	24,309,766	8,779,559	33,089,325
Retail loans	160,466,244	16,685,844	177,152,088	175,241,390	3,394,915	178,636,305
	175,286,630	20,757,036	196,043,666	199,551,156	12,174,474	211,725,630
Allowance for probable losses	(2,478,149)	(3,872,795)	(6,350,944)	(2,888,820)	(7,687,810)	(10,576,630)
Net carrying amount	172,808,481	16,884,241	189,692,722	196,662,336	4,486,664	201,149,000

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.

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

(v) Information on related party loans

Details of DOSRI loans are as follows:

	2020	2019
Outstanding DOSRI loans	1,406	2,091
% to total outstanding loans and advances	0.00	0.00
% to total outstanding DOSRI loans		
Unsecured DOSRI loans	0.00	0.00
Past due DOSRI loans	0.00	0.00
Non-performing DOSRI loans	0.00	0.00

The Bank is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans as at December 31, 2020 and 2019. The Bank has no other related party loans outstanding as at December 31, 2020 and 2019.

(vi) Secured liabilities and assets pledged as security

There are no loans and advances at December 31, 2020 and 2019 used as security for other borrowed funds. (Note 13).

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

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

	2020	2019
Undrawn loan commitments	5,848,681	6,634,735
Loss allowance	(32,332)	(31,369)
Carrying amount	5,816,349	6,603,366

Undrawn loan commitments are commitments under which over the duration of the commitment, the Bank 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 Bank 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 14).

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

Note 27 - Supplemental information required by the Bureau of Internal Revenue

Below is the additional information required by Revenue Regulations No. 15-2010 that is relevant to the 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 for the year ended December 31, 2020 consist of:

	Amount
Deposit and loan documents	855,999
Mortgage documents	2,007
Others	5,876
	863,882

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2020 consist of:

	Paid	Accrued	Total
Final income taxes withheld on interest on deposits	342,792	56,752	399,544
Income taxes withheld on compensation	236,141	51,413	287,554
Creditable income taxes withheld (expanded)	126,026	20,754	146,780
Withholding tax on decedent's deposit account	1,840	215	2,055
Final income taxes withheld on income payment	628	4	632
	707,427	129,138	836,565

Accrued withholding tax is shown as part of Deferred credits and other liabilities.

(iii) All other local and national taxes

All other local and national taxes paid/accrued for the year ended December 31, 2020 consist of:

	Paid	Accrued	Total
Gross receipts tax	596,729	207,170	803,899
Fringe benefit tax	14,993	2,377	17,370
Municipal taxes/Mayor's permit	56,266	-	56,266
Real property tax	23,270	-	23,270
Others	1,260	-	1,260
	692,518	209,547	902,065

Accrued taxes are shown as part of Accrued taxes, interest and other expenses in the statement of condition.

(iv) Tax cases and examinations

As at December 31, 2020, the Bank has various claims for tax refund pending with the tax authorities. There are no outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR in 2020.