

# ***Bank of the Philippine Islands and Subsidiaries***

**Unaudited Condensed Consolidated Interim  
Financial Statements**

**As at and for the three-month period ended March 31, 2020  
(With comparative figures as at December 31, 2019 and for the  
three-month period ended March 31, 2019)**



## **Report on Review of Interim Financial Statements**

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

### ***Introduction***

We have reviewed the accompanying unaudited condensed consolidated interim statement of condition of the Bank of the Philippine Islands and Subsidiaries (the “BPI Group”) as at March 31, 2020, and the related unaudited condensed consolidated interim statements of income, statements of comprehensive income, statements of changes in capital funds and statements of cash flows for the three-month periods ended March 31, 2020 and 2019, and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these unaudited condensed consolidated interim financial statements in accordance with Philippine Accounting Standard 34, “Interim Financial Reporting” as issued by the Financial Reporting Standards Council (FRSC). Our responsibility is to express a conclusion on these unaudited condensed consolidated interim financial statements based on our review.

### ***Scope of Review***

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

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To the Board of Directors and Shareholders of  
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**Conclusion**

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

**Isla Lipana & Co.**

John Patrick V. Lim  
Partner

CPA Cert. No. 83389

P.T.R. No. 0007706, issued on January 7, 2020, 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 0009-FR-5, Category A; effective until June 20, 2021

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 September 30, 2020

Makati City  
June 17, 2020

**BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES**

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CONDITION

MARCH 31, 2020

(With Comparative Audited Consolidated December 31, 2019 Figures)

(All amounts in millions of Philippine Peso)

	Notes	March 31, 2020	December 31, 2019
<u>RESOURCES</u>			
CASH AND OTHER CASH ITEMS	3	36,034	47,256
DUE FROM BANGKO SENTRAL NG PILIPINAS	3	224,427	207,845
DUE FROM OTHER BANKS	3	40,877	22,356
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	3	17,420	22,570
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	4	14,083	24,105
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	5	80,401	53,905
INVESTMENT SECURITIES AT AMORTIZED COST, net	6	248,519	275,105
LOANS AND ADVANCES, net	7	1,447,375	1,475,336
ASSETS HELD FOR SALE, net		3,217	3,155
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	8	22,844	23,748
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net		5,906	6,746
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS		17,563	17,790
DEFERRED INCOME TAX ASSETS, net		10,646	9,706
OTHER RESOURCES, net		22,444	15,407
<b>Total resources</b>		<b>2,191,756</b>	<b>2,205,030</b>

*(forward)*

**BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES**

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CONDITION

MARCH 31, 2020

(With Comparative Audited Consolidated December 31, 2019 Figures)

(All amounts in millions of Philippine Peso)

	Notes	March 31, 2020	December 31, 2019
<u>LIABILITIES AND CAPITAL FUNDS</u>			
DEPOSIT LIABILITIES	9	1,677,266	1,695,343
DERIVATIVE FINANCIAL LIABILITIES	10	4,911	2,877
BILLS PAYABLE AND OTHER BORROWED FUNDS	10	144,541	150,837
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		1,884	2,946
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		7,081	8,299
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		10,458	9,865
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS		14,095	14,061
DEFERRED CREDITS AND OTHER LIABILITIES		55,392	47,768
<u>Total liabilities</u>		<u>1,915,628</u>	<u>1,931,996</u>
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI			
Share capital	11	45,011	44,999
Share premium		74,531	74,449
Reserves	11	5,118	5,108
Surplus		153,842	147,460
Accumulated other comprehensive loss		(5,804)	(2,439)
		272,698	269,577
<u>NON-CONTROLLING INTEREST</u>		<u>3,430</u>	<u>3,457</u>
<u>Total capital funds</u>		<u>276,128</u>	<u>273,034</u>
<u>Total liabilities and capital funds</u>		<u>2,191,756</u>	<u>2,205,030</u>

(The notes on pages 1 to 15 are an integral part of these unaudited condensed consolidated interim financial statements.)

**BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES**

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME  
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2020 AND 2019  
(All amounts in millions of Philippine Peso, Except Per Share Amounts)

	Note	2020	2019
<b>INTEREST INCOME</b>			
On loans and advances		21,880	21,680
On investment securities		3,143	2,685
On deposits with BSP and other banks		382	454
		<b>25,405</b>	<b>24,819</b>
<b>INTEREST EXPENSE</b>			
On deposits		5,919	6,947
On bills payable and other borrowings		1,349	1,819
		<b>7,268</b>	<b>8,766</b>
<b>NET INTEREST INCOME</b>		<b>18,137</b>	<b>16,053</b>
<b>PROVISIONS FOR CREDIT AND IMPAIRMENT LOSSES</b>	7	<b>4,226</b>	<b>1,803</b>
<b>NET INTEREST AFTER PROVISIONS FOR CREDIT AND IMPAIRMENT LOSSES</b>		<b>13,911</b>	<b>14,250</b>
<b>OTHER INCOME</b>			
Fees and commissions		2,265	2,069
Trading gain on securities		1,576	492
Income from foreign exchange trading		547	548
Income attributable to insurance operations		(67)	352
Other operating income		2,800	3,271
		<b>7,121</b>	<b>6,732</b>
<b>OTHER EXPENSES</b>			
Compensation and fringe benefits		4,573	4,054
Occupancy and equipment-related expenses		3,722	4,322
Other operating expenses		4,234	3,692
		<b>12,529</b>	<b>12,068</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>8,503</b>	<b>8,914</b>
<b>INCOME TAX EXPENSE</b>			
Current		3,109	1,977
Deferred		(987)	150
		<b>2,122</b>	<b>2,127</b>
<b>NET INCOME FOR THE PERIOD</b>		<b>6,381</b>	<b>6,787</b>
Attributable to:			
Equity holders of BPI		6,385	6,723
Non-controlling interest		(4)	64
		<b>6,381</b>	<b>6,787</b>
Earnings per share for net income attributable to the equity holders of BPI during the period:			
Basic and diluted		1.41	1.49

(The notes on pages 1 to 15 are an integral part of these unaudited condensed consolidated interim financial statements.)

**BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES**

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2020 AND 2019  
(All amounts in millions of Philippine Peso)

	Note	2020	2019
<b>NET INCOME FOR THE PERIOD</b>		<b>6,381</b>	<b>6,787</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Net change in fair value reserve on FVOCI securities, net of tax effect	11	(2,144)	821
Fair value reserve on investments of insurance subsidiaries, net of tax effect	11	(72)	291
Share in other comprehensive (loss) income of associates		(395)	753
Currency translation and other adjustments		(192)	34
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Remeasurement losses on defined benefit plan, net of tax effect	11	(3)	(8)
Share in other comprehensive loss of associates		(583)	(15)
Total other comprehensive (loss) income, net of tax effect		(3,389)	1,876
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>2,992</b>	<b>8,663</b>
Attributable to:			
Equity holders of BPI		3,020	8,520
Non-controlling interest		(28)	143
		<b>2,992</b>	<b>8,663</b>

(The notes on pages 1 to 15 are an integral part of these unaudited condensed consolidated interim financial statements.)

**BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES**

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN CAPITAL FUNDS  
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2020 AND 2019  
(All amounts in millions of Philippine Peso)

	Attributable to equity holders of BPI (Note 11)							Non-controlling interest	Total equity
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total			
<b>Balance, January 1, 2019</b>	<b>44,961</b>	<b>74,181</b>	<b>4,096</b>	<b>127,459</b>	<b>(2,176)</b>	<b>248,521</b>	<b>3,017</b>	<b>251,538</b>	
<b>Comprehensive income</b>									
Net income for the period	-	-	-	6,723	-	6,723	64	6,787	
Other comprehensive income for the period	-	-	-	-	1,797	1,797	79	1,876	
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,723</b>	<b>1,797</b>	<b>8,520</b>	<b>143</b>	<b>8,663</b>	
<b>Transactions with owners</b>									
Executive stock plan amortization	9	64	9	-	-	82	-	82	
<b>Total transactions with owners</b>	<b>9</b>	<b>64</b>	<b>9</b>	<b>-</b>	<b>-</b>	<b>82</b>	<b>-</b>	<b>82</b>	
<b>Other movements</b>									
Transfer from surplus to reserves	-	-	(161)	161	-	-	-	-	
Others	-	-	-	213	(229)	(16)	(6)	(22)	
<b>Balance, March 31, 2019</b>	<b>44,970</b>	<b>74,245</b>	<b>3,944</b>	<b>134,556</b>	<b>(608)</b>	<b>257,107</b>	<b>3,154</b>	<b>260,261</b>	
<b>Balance, January 1, 2020</b>	<b>44,999</b>	<b>74,449</b>	<b>5,108</b>	<b>147,460</b>	<b>(2,439)</b>	<b>269,577</b>	<b>3,457</b>	<b>273,034</b>	
<b>Comprehensive income</b>									
Net income for the period	-	-	-	6,385	-	6,385	(4)	6,381	
Other comprehensive loss for the period	-	-	-	-	(3,365)	(3,365)	(24)	(3,389)	
<b>Total comprehensive income (loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,385</b>	<b>(3,365)</b>	<b>3,020</b>	<b>(28)</b>	<b>2,992</b>	
<b>Transactions with owners</b>									
Executive stock plan amortization	12	82	10	-	-	104	-	104	
<b>Total transactions with owners</b>	<b>12</b>	<b>82</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>104</b>	<b>-</b>	<b>104</b>	
<b>Other movements</b>									
	-	-	-	(3)	-	(3)	1	(2)	
<b>Balance, March 31, 2020</b>	<b>45,011</b>	<b>74,531</b>	<b>5,118</b>	<b>153,842</b>	<b>(5,804)</b>	<b>272,698</b>	<b>3,430</b>	<b>276,128</b>	

(The notes on pages 1 to 15 are an integral part of these unaudited condensed consolidated interim financial statements.)



**BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES**

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS  
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2020 AND 2019  
(All amounts in millions of Philippine Peso)

	Note	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		8,503	8,914
Adjustments for:			
Provisions for credit and impairment losses	7	4,226	1,803
Depreciation and amortization		1,783	1,309
Share in net income of associates		(136)	(29)
Dividend income		(1)	(14)
Share based compensation		11	10
Interest income		(25,405)	(24,819)
Interest received		28,701	25,410
Interest expense		7,268	8,766
Interest paid		(8,207)	(8,547)
(Increase) decrease in:			
Interbank loans and receivable and securities purchased under agreement to resell		717	1,318
Financial assets at fair value through profit or loss		11,957	(12,424)
Loans and advances		22,505	4,298
Assets held for sale		(106)	(95)
Assets attributable to insurance operations		31	520
Other resources		(7,864)	(117)
Increase (decrease) in:			
Deposit liabilities		(18,078)	22,585
Due to Bangko Sentral ng Pilipinas and other banks		(1,062)	(754)
Manager's checks and demand drafts outstanding		(1,218)	703
Accrued taxes, interest and other expenses		(757)	752
Liabilities attributable to insurance operations		34	(411)
Derivative financial instruments		(29)	(65)
Deferred credits and other liabilities		7,624	(7,571)
Net cash from operations		30,497	21,542
Income taxes paid		(775)	(1,962)
Net cash from operating activities		29,722	19,580

*(forward)*

**BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES**

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS  
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2020 AND 2019  
(All amounts in millions of Philippine Peso)

	Note	2020	2019
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
(Increase) decrease in:			
Investment securities		<b>(3,578)</b>	(4,604)
Bank premises, furniture, fixtures and equipment		<b>(545)</b>	(859)
Investment in subsidiaries and associates, net		<b>(144)</b>	240
Assets attributable to insurance operations		<b>331</b>	(345)
Investment property, net		<b>(1)</b>	(2)
Dividends received		<b>1</b>	14
Net cash used in investing activities		<b>(3,936)</b>	(5,556)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash dividends		-	4,052
Issuance of shares via exercise of stock options		<b>93</b>	73
Decrease in bills payable and other borrowed funds		<b>(6,296)</b>	(28,135)
Net cash used in financing activities		<b>(6,203)</b>	(24,010)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>19,583</b>	(9,986)
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning of period	3	<b>299,068</b>	313,270
End of period		<b>318,651</b>	303,284

(The notes on pages 1 to 15 are an integral part of these unaudited condensed consolidated interim financial statements.)

## **BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES**

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the three-month period ended March 31, 2020

(With comparative figures as at December 31, 2019 and for the three-month period ended March 31, 2019)

(In Millions of Pesos, unless otherwise stated)

### **Note 1 - General information**

Bank of the Philippine Islands (“BPI” or the “Parent Bank”) is a domestic commercial bank with an expanded banking license and has its registered office address, which is also its principal place of business, at Ayala North Exchange, Ayala Avenue corner Salcedo Street, Legaspi Village, 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 March 31, 2020, the BPI Group has 21,621 employees (March 31, 2019 - 19,101 employees) and operates 1,169 branches and 2,779 ATMs and CAMs (March 31, 2019 - 1,056 branches and 2,987 ATMs and CAMs) to support its delivery of services. The BPI Group also serves its customers through alternative electronic banking channels such as telephone, mobile phone and the internet. The Parent Bank was registered with the Securities and Exchange Commission (SEC) on January 4, 1943. This license was extended for another 50 years on January 4, 1993.

The Parent Bank is considered a public company under Rule 3.1 of Implementing Rules and Regulations of the Securities Regulation Code, which, among others, defines a public company as any corporation with a class of equity securities listed on an exchange, or with assets of at least P50 million and having 200 or more shareholders, each of which holds at least 100 shares of its equity securities. Likewise, BPI is a listed entity with its shares traded in the Philippine Stock Exchange (PSE) since October 12, 1971. As at March 31, 2020, the Parent Bank has 12,332 common shareholders (March 31, 2019 - 12,484).

The condensed consolidated interim financial statements have been approved by the Board of Directors of the Parent Bank on June 17, 2020.

On March 16, 2020, the Philippine Government declared the entire island of Luzon island 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% select branches operating on a skeletal basis during the beginning of the lockdown. Due to the transition to general community quarantine (GCQ) on June 1, 2020, branch operations have been back to 100%. At this stage, the Parent Bank deems it prudent to hold in abeyance any further branch expansion and will regularly reevaluate its stance as the crisis progresses.

Bank margins are expected to come under pressure from lower interest rates. Fee income outlook is also expected to be soft as various aspects of the economy remain affected by the lockdown resulting in lower transaction volume as well as the mandated waiver of fees on branch and digital banking transactions. Further, the waiver of certain transaction fees, payment fees, penalties and interest on interest for the duration of the ECQ for all loans imposed by the Bayanihan Act could negatively impact the BPI Group’s revenues.

These and any further government measures to curtail the spread of COVID-19 could nevertheless adversely impact the BPI Group’s business, financial condition and results of operations.

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

## **Note 2 - Segment information**

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

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

The BPI Group's main operating business segments follow:

- Consumer banking - this segment serves the individual and retail markets. It covers deposit taking and servicing, consumer lending such as home mortgages, auto loans and credit card finance as well as the remittance business. Likewise, this segment includes the entire transaction processing and service delivery infrastructure consisting of the BPI, BPI Family Savings Bank and BPI Direct BanKo network of branches and ATMs as well as phone and internet-based banking platforms.
- Corporate banking - this segment addresses both high-end corporations as well as middle market clients. It covers deposit taking and servicing, the entire lending, leasing, trade and cash management services provided by the BPI Group to corporate and institutional customers.
- Investment banking - this segment includes the various business groups operating in the investment markets and dealing in activities other than lending and deposit taking. These services cover corporate finance, securities distribution, asset management, trust and fiduciary services as well as proprietary trading and investment activities.

The performance of the Parent Bank is assessed as a single unit using financial information presented in its separate financial statements. Likewise, the CEO assesses the performance of its insurance business as a separate segment from its banking and allied financial undertakings.

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

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

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

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

The BPI Group's management reporting is based on a measure of operating profit comprising net interest income, impairment charge, fees, commissions, 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 condensed consolidated interim statement of condition, but exclude items such as taxation.

The segment assets and liabilities as at March 31, 2020 and December 31, 2019 and results of operations of the reportable segments of the BPI Group as at and for the three-month periods ended March 31, 2020 and 2019 follow:

	March 31, 2020			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
Net interest income	11,225	5,092	2,838	19,155
Provisions for credit and impairment losses	3,004	1,223	(1)	4,226
Net interest income after provisions for credit and impairment losses	8,221	3,869	2,839	14,929
Fees, commissions and other income, net	3,428	1,094	2,761	7,283
Total income	11,649	4,963	5,600	22,212
Compensation and fringe benefits	3,843	782	283	4,908
Occupancy and equipment-related expenses	2,438	529	66	3,033
Other operating expenses	4,096	946	501	5,543
Total operating expenses	10,377	2,257	850	13,484
Operating profit	1,272	2,706	4,750	8,728
Share in net loss of associates				(59)
Income tax expense				2,122
<b>Total resources</b>				
March 31, 2020	475,386	1,190,309	490,132	2,155,827
December 31, 2019	539,093	1,208,553	427,571	2,175,217
<b>Total liabilities</b>				
March 31, 2020	1,186,307	544,479	155,487	1,886,273
December 31, 2019	1,211,212	552,549	145,398	1,909,159

  

	March 31, 2019			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
Net interest income	10,491	3,015	3,814	17,320
Provisions for credit and impairment losses	844	965	(6)	1,803
Net interest income after provisions for credit and impairment losses	9,647	2,050	3,820	15,517
Fees, commissions and other income, net	3,220	1,027	1,466	5,713
Total income	12,867	3,077	5,286	21,230
Compensation and fringe benefits	3,302	573	249	4,124
Occupancy and equipment-related expenses	2,084	535	69	2,688
Other operating expenses	3,694	747	395	4,836
Total operating expenses	9,080	1,855	713	11,648
Operating profit	3,787	1,222	4,573	9,582
Share in net income of associates				159
Income tax expense				2,127
<b>Total resources</b>				
March 31, 2019	500,049	1,126,420	422,126	2,048,595
December 31, 2018	534,234	1,113,367	409,797	2,057,398
<b>Total liabilities</b>				
March 31, 2019	1,108,948	563,659	132,757	1,805,364
December 31, 2018	1,124,800	552,969	137,872	1,815,641

Reconciliation of segment results to consolidated results of operations:

	March 31, 2020		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
Net interest income	19,155	(1,018)	18,137
Provisions for credit and impairment losses	4,226	-	4,226
Net interest income after provisions for credit and impairment losses	14,929	(1,018)	13,911
Fees, commissions and other income, net	7,283	(162)	7,121
Total income	22,212	(1,180)	21,032
Compensation and fringe benefits	4,908	(335)	4,573
Occupancy and equipment-related expenses	3,033	689	3,722
Other operating expenses	5,543	(1,309)	4,234
Total operating expenses	13,484	(955)	12,529
Operating profit	8,728	(221)	8,503
Share in net loss of associates (included in Other income)	(59)	-	(59)
Income tax expense	2,122	-	2,122
<b>Total resources</b>			
March 31, 2020	2,155,827	35,929	2,191,756
December 31, 2019	2,175,217	29,813	2,205,030
<b>Total liabilities</b>			
March 31, 2020	1,886,273	29,355	1,915,628
December 31, 2019	1,909,159	22,837	1,931,996

  

	March 31, 2019		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
Net interest income	17,320	(1,267)	16,053
Provisions for credit and impairment losses	1,803	-	1,803
Net interest income after provisions for credit and impairment losses	15,517	(1,267)	14,250
Fees, commissions and other income, net	5,713	1,019	6,732
Total income	21,230	(248)	20,982
Compensation and fringe benefits	4,124	(70)	4,054
Occupancy and equipment-related expenses	2,688	1,634	4,322
Other operating expenses	4,836	(1,144)	3,692
Total operating expenses	11,648	420	12,068
Operating profit	9,582	(668)	8,914
Share in net income of associates (included in Other income)	159	-	159
Income tax expense	2,127	-	2,127
<b>Total resources</b>			
March 31, 2019	2,048,595	36,003	2,084,598
December 31, 2018	2,057,398	27,830	2,085,228
<b>Total liabilities</b>			
March 31, 2019	1,805,364	18,972	1,824,336
December 31, 2018	1,815,641	18,049	1,833,690

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

### Note 3 - Cash and cash equivalents

Cash and cash equivalents consist of:

	March 31, 2020	December 31, 2019
Cash and other cash items	36,034	47,256
Due from BSP	224,427	207,845
Due from other banks	40,877	22,356
Interbank loans receivable and securities purchased under agreements to resell	16,961	21,394
Cash and cash equivalents attributable to insurance operations	352	217
	<b>318,651</b>	<b>299,068</b>

The increase in Due from BSP of P16,582 million is due to higher volume of placement in BSP deposits. Interbank loans receivable and SPAR decreased due to lower volume of placements in reverse repurchase agreements and interbank term loans.

For cash flow statement purposes, cash and cash equivalents consist of:

	March 31, 2020	March 31, 2019
Cash and other cash items	36,034	30,867
Due from BSP	224,427	240,965
Due from other banks	40,877	12,037
Interbank loans receivable and securities purchased under agreements to resell	16,961	19,353
Cash and cash equivalents attributable to insurance operations	352	62
	<b>318,651</b>	<b>303,284</b>

### Note 4 - Financial Assets at Fair Value through Profit or Loss (FVTPL)

The account consists of:

	March 31, 2020	December 31, 2019
Debt securities		
Government securities	5,949	17,017
Commercial papers of private companies	3,191	4,082
Equity securities - listed	70	73
Derivative financial assets	4,873	2,933
	<b>14,083</b>	<b>24,105</b>

The decrease in the account is mainly due to higher volume of disposals of government securities and decline in holdings of securities intended for trading.

Derivatives held by the BPI Group for non-hedging purposes mainly consist of foreign exchange forwards, foreign exchange swaps, interest rate swaps and cross-currency swaps. The increase is due to higher volume of transactions during the three-month period ended March 31, 2020.

**Note 5 - Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)**

The account consists of:

	March 31, 2020	December 31, 2019
Debt securities		
Government securities	66,008	39,751
Commercial papers of private companies	11,145	10,624
	77,153	50,375
Accrued interest receivable	608	704
	77,761	51,079
Equity securities		
Listed	1,655	1,738
Unlisted	985	1,088
	2,640	2,826
	80,401	53,905

The portfolio of debt securities increased during the quarter as residual funds were invested into debt securities with a hold-to-collect and sell objective.

**Note 6 - Investment securities at amortized cost, net**

The account consists of:

	March 31, 2020	December 31, 2019
Government securities	198,766	190,773
Commercial papers of private companies	47,462	80,644
	246,228	271,417
Accrued interest receivable	2,292	3,688
	248,520	275,105
Allowance for credit losses	(1)	-
	248,519	275,105

The decrease in the account of P26,586 million is due to disposals and maturities during the first quarter of 2020.



## Note 7 - Loans and advances, net

The account consists of:

	March 31, 2020	December 31, 2019
Corporate loans		
Large corporate customers	1,128,660	1,147,643
Small and medium enterprise	73,079	73,357
Retail loans		
Real estate mortgages	134,277	137,380
Credit cards	73,705	75,100
Auto loans	53,748	53,789
Others	12,586	11,421
	1,476,055	1,498,690
Accrued interest receivable	8,120	9,660
Unearned discount/income	(6,779)	(7,040)
	1,477,396	1,501,310
Allowance for impairment	(30,021)	(25,974)
	1,447,375	1,475,336

The decline in loans and advances is driven by lower demand for large corporate loans and retail loans, specifically credit cards and housing loans.

The significant amount of provision for credit losses is in line with the Bank's provisioning in anticipation of higher forthcoming NPLs due to the impact of COVID-19.

The movements in allowance for credit losses are summarized below:

	March 31, 2020	December 31, 2019
Beginning balance	25,974	22,902
Provision for credit losses	4,137	6,074
Transfers	25	(286)
Write-offs	(113)	(2,645)
Accretion/Unwinding of discount	(2)	(71)
Ending balance	30,021	25,974

## Note 8 - Bank premises, furniture, fixtures and equipment

Movements in the account are summarized as follows:

	March 31, 2020				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
<b>Cost</b>					
January 1, 2020	3,019	21,956	17,023	6,131	<b>48,129</b>
Additions	-	280	256	237	<b>773</b>
Disposals	-	-	(219)	(235)	<b>(454)</b>
Transfers	-	(2)	(2)	(9)	<b>(13)</b>
March 31, 2020	<b>3,019</b>	<b>22,234</b>	<b>17,058</b>	<b>6,124</b>	<b>48,435</b>
<b>Accumulated depreciation</b>					
January 1, 2020	-	8,179	14,357	1,845	<b>24,381</b>
Depreciation and amortization	-	725	377	331	<b>1,433</b>
Disposals	-	-	(90)	(127)	<b>(217)</b>
Transfers	-	-	(1)	(5)	<b>(6)</b>
March 31, 2020	-	<b>8,904</b>	<b>14,643</b>	<b>2,044</b>	<b>25,591</b>
<b>Net book value, March 31, 2020</b>	<b>3,019</b>	<b>13,330</b>	<b>2,415</b>	<b>4,080</b>	<b>22,844</b>

	December 31, 2019				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
<b>Cost</b>					
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	<b>3,019</b>	<b>21,956</b>	<b>17,023</b>	<b>6,131</b>	<b>48,129</b>
<b>Accumulated depreciation</b>					
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	-	<b>8,179</b>	<b>14,357</b>	<b>1,845</b>	<b>24,381</b>
<b>Net book value, December 31, 2019</b>	<b>3,019</b>	<b>13,777</b>	<b>2,666</b>	<b>4,286</b>	<b>23,748</b>

## Note 9 - Deposit liabilities

Deposit liabilities decreased mainly due to pre-terminations and maturities of time deposit placements from individual and corporate clients of the Bank.

## Note 10 - Bills payable and other borrowed funds

The account consists of:

	March 31, 2020	December 31, 2019
Bills payable	<b>35,298</b>	65,781
Other borrowed funds	<b>109,243</b>	85,056
	<b>144,541</b>	150,837

The reduction in bills payable as at March 31, 2020 is primarily due to settlement of short-term interbank borrowings which were not renewed upon maturities.

### *Other borrowed funds*

This represents funds raised via 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 billion, out of which a total of P25 billion notes were issued with a coupon of 6.7970% per annum, payable quarterly to mature on March 6, 2020. Last 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.

Likewise, on October 31, 2019, the BOD of BPI Family Savings Bank, Inc. (BPI Family), a subsidiary, approved the establishment of a Peso Bond Program in the aggregate amount of P35 billion. In line with the said program, on December 16, 2019, BPI Family issued P9.6 billion with a coupon of 4.30% per annum, payable quarterly to mature on June 16, 2022.

On January 24, 2020, the Bank issued P15.3 billion Peso Fixed-Rate Bonds with a coupon of 4.24% per annum, payable quarterly to mature on January 24, 2022 as part of its updated Bank Bond Issuance Program.

On March 27, 2020, the Bank issued P33.9 billion Peso Fixed-Rate Bonds with a coupon of 4.05% per annum, payable quarterly to mature on September 27, 2021 as part of its updated Bank Bond Issuance Program.

#### *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 billion with drawdowns as follows:

Description of instruments	Date of drawdown	Interest rate	Maturity	Amount (In Millions of Pesos)
US\$ 600 million, 5-year senior unsecured Bonds	September 4, 2018	4.25%	September 4, 2023	32,000
US\$ 300 million, 5-year senior unsecured Green Bonds	September 10, 2019	2.5%	September 10, 2024	15,572
CHF 100 million, 2-year senior unsecured Green Bonds	September 24, 2019	-	September 24, 2021	5,250

The CHF-denominated bonds are designated as hedged items in a cash flow hedge initiated by the Parent Bank in 2019. On the same date, the Parent Bank entered into a two-year cross-currency interest rate swap to economically hedge the foreign currency risk arising from the debt and designated the instrument in a cash flow hedge accounting. The objective of the hedge transaction is to fix the variability in cash flows of the foreign currency denominated bond. As at March 31, 2020, the hedge continues to be fully effective as the critical terms perfectly match and the movement in fair value amounting to P124 million is therefore recognized in other comprehensive loss.

## Note 11 - Capital funds

### (a) Share capital

Details of authorized capital share of the Parent Bank follow:

	March 31, 2020	December 31, 2019
Authorized capital (at P10 par value per share)		
Common shares	49,000	49,000
Preferred A shares	600	600
	<b>49,600</b>	<b>49,600</b>

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

	March 31, 2020	December 31, 2019
	(In absolute number of shares)	
Common shares		
Beginning	4,507,071,644	4,502,449,501
Subscription of shares during the period	6,028,734	4,622,143
Ending	<b>4,513,100,378</b>	<b>4,507,071,644</b>
	(In absolute amounts)	
Subscription receivable	<b>120,077,680</b>	<b>71,637,390</b>

There are no preferred shares issued as at March 31, 2020 and December 31, 2019.

### (b) Reserves

The account consists of:

	March 31, 2020	December 31, 2019
General loan loss provision (GLLP)	4,739	4,739
Executive stock option plan amortization	146	136
Reserve for trust business	199	199
Reserve for self-insurance	34	34
	<b>5,118</b>	<b>5,108</b>

The appropriation for GLLP is recognized to comply with BSP Circular 1011 (the "Circular"). Under the Circular, banks are required 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. Further, the Circular states that if the PFRS 9 loan loss provision is lower than the required GLLP, the deficiency shall be recognized as an appropriation of retained earnings or surplus.

In compliance with existing BSP regulations, 10% of BPI AMTC's income from trust business is appropriated to surplus reserve. This appropriation is required until the surplus reserve for trust business reaches 20% of the authorized capital of BPI AMTC.

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) Dividend declarations

Details of cash dividends declared by the Parent Bank in 2019 follow:

Date Declared	Amount of Dividends	
	Per Share	Amounts in millions of Pesos
May 15, 2019	0.90	4,056
November 20, 2019	0.90	4,057

The cash dividends amounting to P8,113 million were also fully settled in 2019.

(d) Accumulated other comprehensive loss

Details of accumulated other comprehensive loss are as follows:

	March 31, 2020	December 31, 2019
Fair value reserve on financial assets at FVOCI	(2,228)	(84)
Remeasurements of defined benefit obligation, net	(2,618)	(2,615)
Translation adjustment on foreign operations	(1,098)	(906)
Share in other comprehensive income (loss) of insurance subsidiaries	70	118
Share in other comprehensive income (loss) of associates	70	1,048
	(5,804)	(2,439)

**Note 12 - Commitments and contingencies**

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

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

**Note 13 - Related party transactions**

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

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

Details of directors, officers, stockholders, and their related interests (DOSRI) loans follow:

	March 31, 2020	December 31, 2019
Outstanding DOSRI loans	9,946	10,026
	In percentage (%)	
% to total outstanding loans and advances	0.68	0.67
% to total outstanding DOSRI loans		
Unsecured DOSRI loans	17.37	17.30
Past due DOSRI loans	-	0.01
Non-performing DOSRI loans	-	-

At March 31, 2020 and December 31, 2019, the BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans.

#### **Note 14 - Critical accounting estimates and judgments**

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

In preparing the condensed consolidated interim financial statements, the significant accounting estimates and judgments made by management in applying the BPI Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2019.

#### **Note 15 - Fair value measurements of financial instruments**

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

##### **a. Fair value hierarchy**

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

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp., etc.).
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter (OTC) derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The BPI Group considers relevant and observable market prices in its valuations where possible. The BPI Group has no assets or liabilities classified under Level 3 as at March 31, 2020 and December 31, 2019.

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

The following tables present the carrying value and fair value hierarchy of the BPI Group's assets and liabilities measured at fair value at March 31, 2020 and December 31, 2019:

2020	Carrying Amount	Fair value		Total
		Level 1	Level 2	
<b>Recurring measurements</b>				
<b>Financial assets</b>				
Financial assets at FVTPL				
Derivative financial assets	4,873	-	4,873	4,873
Trading assets				
- Debt securities	9,140	8,983	157	9,140
- Equity securities	70	70	-	70
Financial assets at FVOCI				
- Debt securities	77,761	77,416	345	77,761
- Equity securities	2,640	1,655	985	2,640
	94,484	88,124	6,360	94,484
<b>Financial liabilities</b>				
Derivative financial liabilities	4,911	-	4,911	4,911
<b>Non-recurring measurements</b>				
Assets held for sale, net	3,217	-	3,324	3,324
<b>2019</b>				
	Carrying Amount	Fair value		Total
		Level 1	Level 2	
<b>Recurring measurements</b>				
<b>Financial assets</b>				
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
<b>Financial liabilities</b>				
Derivative financial liabilities	2,877	-	2,877	2,877
<b>Non-recurring measurements</b>				
Assets held for sale, net	3,155	-	9,583	9,583

There were no transfers between Level 1 and Level 2 during the periods ended March 31, 2020 and December 31, 2019.

#### b. Valuation techniques used to derive Level 2 fair values

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

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

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

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

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

The BPI Group also holds financial instruments that are not measured at fair value in the statement of condition at March 31, 2020 and December 31, 2019 as follows:

	Carrying amount		Fair value	
	2020	2019	2020	2019
<b>Financial assets</b>				
Investment securities at amortized cost	248,519	275,105	242,426	276,454
Loans and advances, net	1,447,375	1,475,336	1,471,520	1,480,074
<b>Financial liabilities</b>				
Deposit liabilities	1,677,266	1,695,343	1,660,566	1,678,607

### Note 16 - Basis of preparation

These unaudited condensed consolidated interim financial statements as at and for the three-month period ended March 31, 2020 have been prepared in accordance with PAS 34, *Interim Financial Reporting*. These unaudited condensed consolidated interim financial statements do not include all the notes normally included in an annual financial report. Accordingly, these unaudited condensed consolidated interim financial statements are to be read in conjunction with the annual audited consolidated financial statements of the BPI Group for the year ended December 31, 2019, which have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

#### (a) New standards adopted by the BPI Group

The BPI Group has adopted the following standards effective January 1, 2020:

#### *Definition of Material - Amendments to PAS 1 and PAS 8*

The IASB has made amendments to IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, which clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, 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.

#### *Definition of a Business - Amendments to PFRS 3*

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 amendments will likely result in more acquisitions being accounted for as asset acquisitions.

#### *Revised Conceptual Framework for Financial Reporting*

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- 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.

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

*(b) New standards, amendments and interpretations not yet effective as at January 1, 2020 and has 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.