(incorporated with limited liability in the Republic of the Philippines)

₱27,000,000,000

Fourth Tranche under its ₱100 Billion Bond Program

Issue Price: 100% of Face Value

Interest Rate: 2.8068% p.a.

Joint Lead Arrangers

Sole Selling Agent

Participating Selling Agent

The date of this Final Pricing Supplement is 31 January 2022.

THE BONDS REFERRED TO IN THIS FINAL PRICING SUPPLEMENT ARE SECURITIES EXEMPT FROM REGISTRATION UNDER SECTION 9.1(E) OF THE SECURITIES REGULATION CODE (THE SRC) AND WILL ACCORDINGLY NOT BE REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION (SEC).

This constitutes the Final Pricing Supplement relating to the Twenty Seven Billion Philippine Peso-denominated Bonds (the **Fourth Tranche Bonds**) under the ₱100 Billion Bond Program of the Bank of the Philippine Islands (the **Bank or BPI**) and described herein (the **Offer**). Unless otherwise defined, the terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the **General Terms and Conditions**) set forth in the Trust Agreement dated on or about 13 January 2020 (the **Trust Agreement**) and the Offering Circular dated 13 January 2020 (the **Offering Circular**). This Final Pricing Supplement contains the terms of this Offer and the Fourth Tranche Bonds and must be read in conjunction with the Offering Circular. Full information on the Bank and the Offer is contained in the Offering Circular, the pricing supplement dated 27 March 2020 covering the second tranche under the Program (the **Second Tranche Pricing Supplement**), the pricing supplement dated 07 August 2020 covering the third tranche under the Program (the **Third Tranche Pricing Supplement**) and in this Final Pricing Supplement, subject to such modification as may be communicated by the Issuer from time to time. All information contained in the Offering Circular, the Second Tranche Pricing Supplement and the Third Tranche Pricing Supplement are deemed incorporated by reference in this Final Pricing Supplement, insofar as such information does not conflict with this Final Pricing Supplement. In case of conflict between the provisions of this Final Pricing Supplement and the Trust Agreement, the provisions of the Trust Agreement shall prevail.

The Bank accepts responsibility for the information contained in this Final Pricing Supplement. To the best of the knowledge and belief of the Bank (having taken all reasonable care to ensure that such is the case) the information contained in this Final Pricing Supplement is in accordance with the facts and does not omit anything that would make the statements therein, in light of the circumstances under which they were made, misleading. The Bank, having made all reasonable enquiries, confirms that the Offering Circular and the Final Pricing Supplement together contain or incorporate all information which is material in the context of the Fourth Tranche Bonds, that the information contained or incorporated in this Final Pricing Supplement is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed and incorporated in this Final Pricing Supplement are honestly held and that there are no other facts the omission of which would make the Offering Circular and this Final Pricing Supplement, taken together, or any of such information or the expression of any such opinions or intentions misleading. The Bank accepts responsibility accordingly.

Neither the delivery of this Final Pricing Supplement nor any sale made pursuant to the Offer shall, under any circumstance, create any implication that the information contained or referred to in this Final Pricing Supplement is accurate as of any time subsequent to the date hereof. To the fullest extent permitted by law, none of the Joint Lead Arrangers, the Sole Selling Agent, and the Participating Selling Agent (the Sole Selling Agent and the Participating Selling Agent shall collectively be referred to as **Selling Agents**) (or any of their respective subsidiaries and holding company and the subsidiaries of that holding company, directors, officers, employees, representatives, agents and advisers), accept any responsibility for the contents of this Final Pricing Supplement or for any other statement, made or purported to be made by the Joint Lead Arrangers or the Selling Agents or any of their respective subsidiaries and holding company and the subsidiaries of that holding company, directors, officers, employees, representatives, agents and advisers or on their respective behalf in connection with the Bank, or the issue and offering of the Fourth Tranche Bonds. Each of the Joint Lead Arrangers and the Selling Agents (and their respective subsidiaries and holding company and the subsidiaries of that holding company, directors, officers, employees, representatives, agents and advisers) accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Final Pricing Supplement or any such statement.

No person is or has been authorised by the Bank to give any information or to make any representation other than those contained in this Final Pricing Supplement or any other information supplied in connection with the Fourth Tranche Bonds and, if given or made by any other person, such information or representations must not be relied upon as having been authorised by the Bank, the Joint Lead Arrangers and/or the Selling Agents (and their respective subsidiaries and holding company and the subsidiaries of that holding company, directors, officers, employees, representatives, agents and advisers).

None of the Joint Lead Arrangers and the Selling Agents (or any of their respective subsidiaries and holding company and the subsidiaries of that holding company, directors, officers, employees, representatives, agents and advisers) has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of the Joint Lead Arrangers or any of the Selling Agents as to the accuracy or completeness of the information contained or incorporated in this Final Pricing Supplement or any other information provided by the Bank in connection with the Fourth Tranche Bonds.

The contents of this Final Pricing Supplement are not to be considered as legal, business or tax advice. Neither this Final Pricing Supplement nor any other information supplied in connection with the Fourth Tranche Bonds (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Bank, the Joint Lead Arrangers, and/or the Selling Agents (or any of their respective subsidiaries and holding company and the subsidiaries of that holding company, directors, officers, employees, representatives, agents and advisers), that any recipient of this Final Pricing Supplement or any other information supplied in connection with the Fourth Tranche Bonds should purchase any of the Fourth Tranche Bonds. Each investor contemplating purchasing Fourth Tranche Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Bank. Neither this Final Pricing Supplement, nor any other information supplied in connection with the Fourth Tranche Bonds, constitutes an offer or invitation by or on behalf of the Bank, any of the Joint Lead Arrangers or any of the Selling Agents (or any of their respective subsidiaries and holding company and the subsidiaries of that holding company, directors, officers, employees, representatives, agents and advisers) to any person to subscribe for or to purchase any Fourth Tranche Bonds.

Neither the delivery of this Final Pricing Supplement nor the offering, sale or delivery of any Fourth Tranche Bonds shall in any circumstances imply that the information contained herein concerning the Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Fourth Tranche Bonds is correct as of any time subsequent to the date indicated in the document containing the same. The Joint Lead Arrangers and the Selling Agents (and their respective subsidiaries and holding company and the subsidiaries of that holding company, directors, officers, employees, representatives, agents and advisers) expressly do not undertake to review the financial condition or affairs of the Bank during the life of the Fourth Tranche Bonds or to advise any investor in the Fourth Tranche Bonds of any information coming to their attention. Neither the delivery of this Final Pricing Supplement nor any offering, sale or delivery made in connection with the issue of the Fourth Tranche Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Bank since the date hereof or thereof or the date upon which this Final Pricing Supplement has been most recently amended or supplemented or create any implication that the information contained herein or therein is correct as at any date subsequent to the date hereof or thereof or the date upon which this Final Pricing Supplement has been most recently amended or supplemented. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Final Pricing Supplement when deciding whether or not to purchase any Fourth Tranche Bonds.

TABLE OF CONTENTS

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The audited consolidated financial statements of the Bank and its subsidiaries as of and for the years ended 31 December 2018, 2019, and 2020 and reviewed condensed consolidated financial statements as of and for the nine months ended 30 September 2021 included in this Final Pricing Supplement have been prepared in accordance with accounting principles generally accepted in the Philippines or Philippine Generally Accepted Accounting Principles (**GAAP**) and Philippine Financial Reporting Standards (**PFRS**). PFRS is substantially based on International Financial Reporting Standards. The Bank's financial statements as of and for the years ended 31 December 2018, 2019, and 2020 were audited by Isla Lipana & Co., independent auditors, in accordance with Philippine Standards on Auditing (**PSA**) and the Bank's financial statements as of and for the nine months ended 30 September 2020 and 2021 were reviewed by Isla Lipana & Co., independent auditors, in accordance with the Philippine Standard on Review Engagements (**PSRE**).

CERTAIN DEFINITIONS

Unless the context clearly indicates otherwise, any reference to the **Bank or BPI Group** refers to Bank of the Philippine Islands and its subsidiaries on a consolidated basis, while **Parent Company**, **BPI** or the **Issuer** refers to Bank of the Philippine Islands on a standalone basis. The information contained in this Final Pricing Supplement relating to the Bank, its operations and those of its subsidiaries and associates has been supplied by the Bank, unless otherwise stated herein. To the best of its knowledge and belief, the Bank (which has taken all reasonable care to ensure that such is the case) confirms that, as of the date of this Final Pricing Supplement, the information contained in this Final Pricing Supplement relating solely to the Bank, its operations and those of its subsidiaries and associates is true and that there is no material misstatement or omission of fact which would make any statement in this Final Pricing Supplement misleading in any material respect and that the Bank hereby accepts full and sole responsibility for the accuracy of the information contained in this Final Pricing Supplement with respect to the same. Unless otherwise indicated, all information in this Final Pricing Supplement is as of the date of this Final Pricing Supplement. Neither the delivery of this Final Pricing Supplement nor any sale made pursuant to this Final Pricing Supplement shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Bank since such date. Neither of the Joint Lead Arrangers assume any liability for information supplied by the Bank in relation to this Final Pricing Supplement.

In this Final Pricing Supplement, unless otherwise specified or the context otherwise requires, all references to the **Philippines** are references to the Republic of the Philippines. All references to the **Government** herein are references to the Government of the Republic of the Philippines. All references to the **BSP** herein are references to Bangko Sentral ng Pilipinas, the central bank of the Philippines. All references to **United States** or **U.S.** herein are to the United States of America, its territories and possessions, any State of the United States and the District of Columbia. All references to **Peso** and **₱** herein are to the lawful currency of the Philippines and all references to **U.S. Dollars** or **US$** herein are to the lawful currency of the United States. Unless the context indicates otherwise, references to a particular **calendar** year are to the Bank's financial year ended 31 December of such year.

Figures in this Final Pricing Supplement have been subject to rounding adjustments. Accordingly, figures shown for the same item of information may vary and figures which are totals may not be an arithmetic aggregate of their components.

FORWARD-LOOKING STATEMENTS

The Bank has included statements in this Final Pricing Supplement which contain words or phrases such as "will", "would", "aimed", "is likely", "are likely", "believe", "expect", "expected to", "will continue", "will achieve", "anticipate", "estimate", "intend", "plan", "contemplate", "seek to", "seeking to", "target", "propose to", "future", "objective", "goal", "project", "should", "can", "could", "may" and similar expressions or variations of such expressions, that are "forward-looking statements". Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with the expectations of the Bank with respect to, but not limited to, its ability to successfully implement its strategy, its ability to integrate future mergers or acquisitions into its operations, future levels of non-performing assets and restructured assets, its growth and expansion, the adequacy of its allowance for credit and investment losses, technological changes, investment income, its ability to market new products, cash flow projections, the outcome of any legal or regulatory proceedings it is or becomes a party to, the future impact of new accounting standards, its ability to implement its dividend policy, the impact of Philippine banking regulations on it, which includes the assets and liabilities of the Bank, its ability to roll over its short-term funding sources, its exposure to market risks and the market acceptance of and demand for internet banking services.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this Final Pricing Supplement include, but are not limited to general economic and political conditions in the Philippines, Southeast Asia, and the other countries which have an impact on the Bank's business activities or investments, political or financial instability in the Philippines or any other country caused by any factor including any terrorist attacks in the Philippines, the United States or elsewhere or any other acts of terrorism worldwide, any anti-terrorist or other attacks by the United States, a United States-led coalition or any other country, the monetary and interest rate policies of the Philippines, political or financial instability in the Philippines or any other country or social unrest in any part of the Philippines, inflation, deflation, unanticipated turbulence in interest rates, changes in the value of the Peso, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets and level of internet penetration in the Philippines and globally, changes in domestic and foreign laws, regulations and taxes, changes in competition and the pricing environment in the Philippines and regional or general changes in asset valuations. For a further discussion on the factors that could cause actual results to differ, see the discussion under "*Investment Considerations*" contained in the Offering Circular and in this Final Pricing Supplement.

If the terms of the Fourth Tranche Bonds are modified or amended in a manner which would make this Final Pricing Supplement, as so modified or amended, inaccurate or misleading, to an extent which is material in the context of the Fourth Tranche Bonds, a new pricing supplement will be prepared.

RECENT DEVELOPMENTS

This section discusses recent events after the respective dates of the Offering Circular and the pricing supplements for the preceding tranches and must be read in conjunction with the Offering Circular and all preceding pricing supplements collectively. Full information on the Bank and the Offer is contained in the Offering Circular and in this Final Pricing Supplement, subject to such modification as may be communicated by the Issuer from time to time. The following section is qualified in its entirety by, and should be read in conjunction with, the more detailed information and audited financial statements, including notes thereto, found in the appendices of this Final Pricing Supplement. All information contained in the Offering Circular and the pricing supplements for the preceding tranches are deemed incorporated by reference in this Final Pricing Supplement.

COVID-19

In December 2019, an outbreak of the novel coronavirus (**COVID-19**) occurred in China and spread to other countries, including the Philippines. On 10 March 2020, the World Health Organization characterized COVID-19 as a pandemic. The Philippines remains vulnerable to exposure and spread of the disease for the following reasons, among others: (a) the considerable number of Overseas Filipino Workers (**OFWs**) globally that travel to and from the Philippines; (b) insufficient testing facilities and protocols; (c) inadequacy of the necessary infrastructure and health care facilities; and (d) density of population, especially in urban areas.

To address the COVID-19 outbreak, the Office of the President of the Philippines issued a memorandum dated 13 March 2020 that imposed stringent social distancing measures in the National Capital Region (**NCR**) effective 15 March 2020. On 16 March 2020, the President of the Philippines, through Presidential Proclamation Nos. 929 and 922, Series of 2020 (**Presidential Proclamation**), declared a state of calamity throughout the Philippines due to COVID-19.

On the same day, the Office of the President issued another memorandum that directed the imposition of an enhanced community quarantine (**ECQ**) throughout the island of Luzon until 12 April 2020, unless earlier lifted or extended. The ECQ was extended several times in order to stem the spread of COVID-19 and to prevent a second wave of infections. The ECQ was followed by the proclamation of relaxed quarantine restrictions such as the modified enhanced community quarantine (**MECQ**) until 31 May 2020 and subsequently, general community quarantine (**GCQ**) beginning 19 August 2020. Various cities, municipalities and regions in the country have since been placed on different levels of quarantine restrictions depending on local rates of COVID-19 infection. On 3 September 2021, the Inter-agency Task Force for the Management of Emerging Infectious Diseases (**IATF**) issued a policy of classifying provinces, highly urbanized cities, and independent component cities for purposes of community quarantine. In the new classification framework under the Guidelines on the Pilot Implementation of Alert Levels System for COVID-19 Response in the National Capital Region (**Guidelines on the Pilot Implementation of Alert Levels**), which focuses on the imposition of granular lockdown measures, community quarantine was reduced to either ECQ or GCQ, with the latter having an Alert Level System through Levels 1 to 4 (Alert Level System), with each alert level limiting restrictions only to identified high-risk activities. The pilot area for this policy shift was implemented in the NCR, which was placed under alert level 4 starting 16 September 2021 and extended until 15 October 2021, and alert level 3 beginning 16 October 2021. Starting 05 November 2021, Metro Manila was placed under alert level 2, while the whole country was under alert level 2 starting 03 December 2021. The downgrading of the quarantine classification to alert level 1 was on hold due to the threat of the new COVID-19 variant, Omicron. On 18 November 2021, the IATF approved the Guidelines on the Nationwide Implementation of Alert Level System for COVID-19 Response which aims to manage and minimize the risk of the disease through system indicators, triggers and thresholds determined by the IATF to specify the public health and social measures to be taken in relation to the COVID-19 response. It is expected that COVID-19 infections will continue to cause implementation of varying levels of quarantine restrictions throughout 2021.

The imposition of community quarantines had the effect of reducing mobility and disrupting business activity, resulting in an economic slowdown that has led to an increase in non-performing loans. The Bank booked ₱28.0 billion in provisions for loan losses for the full year 2020. This provision is 5.0x more than the ₱5.6 billion set aside in 2019. Provisions in January to September 2021 was at ₱10.3 billion, down ₱10.2 billion, or 49.9% less than the amount booked from the same period a year ago.

For clarity, any reference to the imposition of ECQ or GCQ in this Final Pricing Supplement, shall carry the applicable definition or treatment under the Presidential Proclamation, or Guidelines on the Pilot Implementation of Alert Levels, depending on the period covered.

As of 30 November 2021, there have been 2,832,724 confirmed COVID-19 cases in the Philippines, with 48,545 local deaths. ECQ has been implemented in Metro Manila twice this year (April and August) amid the surge in COVID-19 cases and presence of new variants, which cause more infections and spread faster than earlier forms of the virus that causes COVID-19.

Despite this, domestic demand has improved compared to 2020 given the adjustments made by consumers and businesses. The availability of vaccines has also contributed to this improvement. As of 30 November 2021, a total of 49,742,227 first doses, 36,365,357 second doses and 64,752 booster doses have been administered. The economy grew by 7.1% in the third quarter of 2021 after five straight quarters of contraction. However, the economy is still far from restoring all the output it lost due to the pandemic.

Implications on Business and Strategy

Against this backdrop, BPI and the entire banking industry play a major role in the economic recovery of the country. BPI remains focused on its long-term strategy of re-balancing its loan mix by prudently accelerating growth in the higher-margin small and medium-sized enterprise (**SME**) and consumer lending businesses. However, the pandemic has revealed the vulnerability of the consumer and SME sector. Loan growth is expected to slow down in view of tepid loan demand as well as clients needing help in rescheduling loan payments before they turn past due or nonperforming status. BPI is tempering the expected loan growth in the consumer segment due to weakened demand in the current business environment. As such, the Bank has taken an active role in supporting this segment's economic resurgence by continuing to lend to emerging winners and those with a clear path to recovery. This is in tandem with the Bank's objective to preserve a high-quality loan book while supporting customer needs.

BPI also maintains strength in the large corporate segment, which comprises 75.9% of its loan portfolio as of 30 September 2021. The Bank strives to be the main operating bank for its clients, especially those bounce-back industries and companies, while evaluating what assistance can be provided to clients in affected sectors.

The current environment also requires the Bank's continued emphasis on managing risks by enhancing the credit process in the aspects of underwriting, monitoring, and collections, in consideration of the COVID-19 impact. With the depth and length of the disruption still uncertain, asset quality is constantly monitored given the steady increase in non-performing loans (**NPLs**). The Bank also monitors vulnerable industries and sectors that have been affected by COVID-19, at the same time, seeking to identify opportunities in other industries and sectors as a result of the change in economic behaviors post-crisis.

In addition, with Republic Act No. 11523, otherwise known as the Financial Institutions Strategic Transfer (**FIST**) Act, signed and approved by the Philippine President, supplemented with BSP Circular 1117, BPI sees an opportunity to accelerate the disposal of non-performing assets. Overall, despite the Philippines continuing grapple with high COVID-19 cases due to new variants, the economy is regaining its footing and is on the right growth track. With continuous efforts in vaccination roll out and mobility slowly picking up, the Bank sees that the Philippine economy may return to pre-pandemic level towards the end of 2022, at the earliest.

The Bank's deposit base remains robust and, similar to previous crisis situations, the overall current account and savings account (**CASA**) deposit base has grown rather than diminished, as BPI has been generally considered as a safe haven in times of crisis. The Bank proceeds with an invigorated focus on CASA deposit growth in the near-term.

Reinforcing the Bank's operational resilience during this crisis, BPI has put in motion business continuity plans and a pandemic response plan and protocol for the entire organization. The objective of BPI's pandemic response plan is three-fold: (1) ensure continuous delivery of products and services to BPI's customers and the banking public, (2) ensure the health and well-being of BPI's employees, and (3) cooperate with authorities in their efforts to contain transmission. The Bank has implemented the following operational changes:

- Flexible work arrangements where BPI's personnel are working from home, compressed work week and relaxed work/time scheduling;
- Activation of alternate work sites and/or mobility sites to improve accessibility of BPI's employees to the office premises;
- Splitting of operations in different physical locations to ensure containment in the event of infection and continued operation;
- Shuttle operations to augment limited public transportation;

- Use of virtual communications (teleconferencing and video conferencing) in lieu of face-to-face meetings;
- Increase in email capacities and deployment of additional communications and portable work tools;
- Protective measures in opened branches and offices:
    - Temperature screening of all employees, clients, and guests at office entrances and branches;
    - Increased availability of hand washing facilities and provision of hand sanitizers at office entrances;
    - Regular disinfection of door handles and work areas, as well as automated teller machines (**ATMs**), cash acceptance machines (**CAMs**), and BPI Express Assist (**BEA**) machines;
    - Social distancing markers;
    - Provided masks, and dividers to the branches for added protection.

Moving forward, there will be changes in the workforce arrangements and set-up of corporate offices as social distancing will now be the new norm, duly supported by the increased use of mobility tools and virtual communications. Additional expenses are also expected related to the purchase of supplies and installation of equipment to prevent the spread of the virus, deep-cleaning and sanitation performed on building premises, incremental insurance to cover increased Cash-in-Vault limits, logistics, and meal and transportation allowances to keep the skeletal force reporting for work during community quarantine.

Given the nationwide implementation of community quarantines, the Bank further recognizes the importance of building strong digital capabilities via BPI's digital distribution platforms to increase client access points, enhance overall customer experience, and increase efficiency and reduce costs in the back office infrastructure. In the last few years, significant investments have been made around the five pillars of BPI's digital ecosystem: (1) omni-channel experience, (2) customer experience, (3) high tech, high touch channels, (4) open banking, and (5) cybersecurity and privacy. Capitalizing on this head start, BPI's digital and self-service channels are available to handle clients' transactions.

For the Bank's digital channels, there is a 39% increase in average daily online transactions from 01 January 2020 to 30 September 2021. Enrolled users are now at 4.68 million, representing about 56% of BPI's eligible account holders. Online transactions, prior to the imposition of ECQ, comprised 85% of total daily transaction count. Since the imposition of ECQ, online transactions account for 91% of total daily transactions, with significant increase in usage of its open banking facilities (e.g. GCash, ECPay) and transfer services (e.g. FTA, IBFT) and in investment subscriptions.

On the other hand, ATM transactions were down to 31% of total retail transactions during ECQ, from 51% prior to the lockdowns. However, a slight increase in average transaction amount was observed as customers were going out less to transact.

Competitive Landscape and Drivers

The Philippine Banking Industry has more than tripled its capital levels since the Global Financial Crisis of 2008, from ₱687.97 billion in 2009 to ₱2.55 trillion in September 2021. With several of the top and middle-tier banks raising capital in the last few years, the industry faces the COVID-19 pandemic with robust capital levels and ratios.

The most pressing challenge faced by the industry is asset quality and NPL formation. Industry NPL ratio has increased from 2.08% in 2019 to 4.58% in September 2021. In anticipation of higher NPLs, banks have proactively booked higher loan loss provisions in 2020. While credit costs have declined in September 2021, it remains elevated compared to pre-pandemic levels.

In terms of profitability, Bank margins have remained under pressure from low interest rate environment. Fee income, on the other hand, has recovered from lows reflected in 2020 as various aspects of the economy have reopened resulting in higher transaction volume. Trading income for the first nine months of 2021 has tempered after an extraordinary performance in 2020 while operating costs remain under control. In sum, Bank profitability for the nine-month period ending September 2021 recovered from year ago largely due to lower credit costs, rebound in fee income and controlled operating expenses.

Operationally, the industry is adapting to the new normal of rising adoption of online and mobile banking platforms. Merger and acquisition opportunities may also present themselves at this time, as stronger and weaker players emerge.

Recovery in the banking industry may likely continue into next year with the reopening of the economy and the push of the BSP to drive credit growth.

Credit

The Bank anticipates slower growth in the loan portfolio as it becomes more cautious in granting of corporate and consumer loans, notwithstanding the BSP's increased regulatory forbearance aimed at providing liquidity (by lowering the reserve rate and cutting the policy rate) and encouraging lending via inclusion of micro, small, and medium enterprises (**MSMEs**) and large enterprises in the alternative compliance to the reserve requirements, among other measures. In 2021, the Bank expects flat to a low single digit growth at best for loans both corporate and consumer loans.

The Bank has seen an increase in the level of non-performing loans due to the impact of COVID-19 on businesses, e.g. temporary/permanent closure of certain businesses, suspended operations, limited travel and exchange of goods. Industries remain vulnerable during the ongoing crisis, in particular, tourism, hospitality, transportation, non-essential retail trade, and real estate.

To mitigate these risks, the Bank is taking a pro-active stance. The Bank has earlier identified industries and accounts susceptible to the effects of the pandemic. The business units have touched based with clients to discuss possible workout arrangements, whether re-scheduling of loan payments or restructuring even before any event of payment default to minimize loan defaults. The Bank will also attempt to secure additional collateral/security to these restructured loans in exchange for softer interest rates. Altogether, the Bank believes that both the Bank and its clients should survive together, and so the Bank shall extend all the reasonable help it can provide to its clients.

For cross-border loans, the Bank reduced portfolio size in light of the expected impact of the COVID-19 pandemic by selling high risk exposures in both industry and company assessment.

For consumer loans, the Bank is experiencing mixed results as mortgage portfolio is growing by a low single digit while the auto loan portfolio is declining mirroring the auto industry slump. However, the Bank continues to enhance its collection process that has helped manage the NPL formation.

Unemployment brought about by possible downsizing and business closures in various sectors and industries, as well as reduced income for the self-employed borrowers are major factors affecting repayment of existing consumer loans and approvals of new applications. Originally, a public health crisis in year 2019 now became an economic issue. Individual borrowers are expected to change priorities and spend more on basic needs rather than non-essentials or discretionary goods. Given this change in consumer behavior, the Bank will continue to exercise prudent risk management for this segment and enhance its monitoring systems to better manage credit risks.

Market and Liquidity

The COVID-19 pandemic crisis has led to heightened market volatility as global and local economies brace for more uncertainties. At the onset of the Luzon lockdown in mid-March 2020, Philippine Government Securities (**GS**) prices declined sharply as local and foreign market players were seen unloading positions in an already illiquid market. GS bid-offer spreads widened by as much as 30 to 60 basis points in mid- to late- March, coming from a normal bid-offer spread of 1 to 5 basis points.

The Bank maintains a strong liquidity profile with Liquidity Coverage Ratio (**LCR**) and Net Stable Funding Ratio (**NSFR**) at 218% and 151%, respectively as of 30 September 2021. Currently, the Bank's short-term liquidity levels, as measured by the Minimum Cumulative Liquidity Gap (**MCLG**) metric, remain well-above BPI's internal threshold. Furthermore, recent liquidity stress tests show that the Bank can generate excess liquidity under moderate to severe stress scenarios.

Branch Network

BPI branch network as of 30 September 2021 stood at 1,179 branches inclusive of branches of its microfinance arm, BPI Direct BanKo (**BanKo**). However, the Bank's branch operations were severely impacted by the effects of COVID-19 quarantine measures, with at times only 50% of its branches operating on a skeletal and/or rotational basis during the beginning of ECQ. Following the transition to GCQ, all BPI and BPI Direct BanKo branches are currently operational. However, branch traffic has not returned to pre-pandemic levels as customers adopt digitalization and shift to doing transactions online. As a result, we are in the process of rationalizing the number of our branches through either co-location, consolidation or relocation. As of 30 September 2021, 33 branches have been co-located and this process is on-going, especially with the forthcoming merger of BPI and BPI Family Bank. The remaining branches will undergo physical transformation and transition from being processing centers to sales stores.

Work-from-Home Difficulties and Cybersecurity

As part of its COVID response, in December 2019, various bank units already moved out of the central headquarters and moved to different locations. Concurrent with the relocation, split operations were also being implemented for key functions like treasury, operations, and lending. For head office functions, employees with laptops and work tools could be on a Work-from-Home (**WFH**) arrangement. Despite the imposition of GCQ over the NCR, social distancing must continually be observed. Consequently, seats in the Bank's corporate sites were recalibrated and some of the Bank's head office employees continue to work from home, such that the number of employees reporting on any given day is at 30%. Work tools and remote access for WFH employees are limited given security protocols. Technical controls are in place along with usage guidelines that supplement existing policies. Existing risk assessments have been updated to account for the changes in the end-user workstation set-up brought about mainly by the deployment of mobility tools. Threats and vulnerabilities that have been identified are being mitigated by both technical and organizational (e.g. process) controls. As such, while cybersecurity risks are theoretically heightened by remote access, a robust risk management process enables the Bank to effectively manage these changes.

During ECQ, select branches were open depending on the ability to secure manning, largely affected by the absence of public transportation. The Bank provided transportation and lodging in nearby dormitories or hotels for employees living outside of Metro Manila or those with difficulty clearing checkpoints, as well as provided special meal and transportation allowances for those reporting for work. In the workplace, safety protocols were implemented such as mandatory wearing of acrylic protection shields, frequent disinfection, and temperature checks, among others. Additional resources were also provided to key employees such as split sites and WFH tools.

Per BPI's Cyber Security Operations Center, there has been an increase in cyber threats and attacks, but no successful breaches to date. System availability has also been resilient throughout this period.

Changes in Customer Behavior

The Bank has noted an increasing shift in customer behavior from transacting in person at a physical location to transacting online, as effect of the pandemic. In 30 September 2021, 91% of total transactions were done via its digital platforms, with only 9% in-branch transactions.

As the Bank continues to make significant investments in and shift towards digitalization, it intends to rationalize it branch footprint. The Bank believes that digitalization will enable its branches to provide more meaningful interactions that address the increasingly complex financial needs of its clients. Digital banking and branch banking will exist side by side, with different purposes for each customer. Although some clients still prefer discussing their financial needs face-to-face, digital banking could accord its clients more choices and greater control of their interactions with the Bank. The result is faster, more accessible, convenient, and safe banking transactions.

The Bank believes that "phygital", a combination of physical and digital banking, is the future of the banking distribution network.

Ratings Update

As of 30 September 2021, BPI has a local long-term bank deposit rating of "Baa2" from Moody's, a long-term local currency issuer default rating of "BBB-" from Fitch, a long-term issuer credit rating of "BBB+" from S&P and "BBB" rating from Capital Intelligence.

Financial and Operating Results

Financial Condition as of 30 September 2021 versus as of 31 December 2020

Total assets at ₱2.26 trillion, increased ₱26.94 billion, or 1.2%, as **Due from Bangko Sentral ng Pilipinas** increased ₱33.32 billion, or 14.9%, and **Financial Assets at Fair Value through Profit or Loss** increased ₱14.09 billion, or 37.9%, from excess liquidity from **Total deposits** which increased ₱80.79 billion, or 4.7%, partly offset by **Bills Payable and Other Borrowed Funds** which declined ₱58.21 billion, or 38.3%, following maturities of bonds. Major account movements for the period were as follows:

- **Due from Other Banks** at ₱55.38 billion, up ₱15.23 billion, or 37.9%, due to the net increase in account balances with various banks;
- **Interbank loans receivable and securities purchased under agreements to resell** at ₱39.73 billion, up ₱9.47 billion, or 31.3%, due to higher volume of interbank term lending;
- **Other Assets,** net at ₱22.83 billion, increased ₱5.99 billion, or 35.6%, primarily from the increase in miscellaneous assets;
- **Assets Held for Sale, net** at ₱3.15 billion, up ₱183 million, or 6.2%, due to the increase in foreclosed properties;
- **Investments in subsidiaries and associates, net** at ₱6.73 billion, declined ₱777 million, or 10.4**%**, due to booking of impairment losses tempering the higher equity investments from the Bank's affiliates;
- **Deferred Income Tax Assets, net** at ₱15.93 billion, down ₱1.60 billion, or 9.1%, mainly due to the net impact of the new tax rate under the Corporate Recovery and Tax Incentives for Enterprises (**CREATE**) Act;
- **Bank Premises, Furniture, Fixtures and Equipment, net** at ₱17 billion, down ₱1.84 billion, or 9.8%, on account of the lower booking of right-of-use assets under PRFS 16;
- **Cash and other cash items** at ₱28.55 billion, decreased ₱8.63 billion, or 23.2%, on account of lower cash placements as compared to year-end 2020;
- **Investment Securities at amortized cost** at ₱230.23 billion, decreased ₱14.42 billion, or 5.9%, due to various maturities and sales from hold to collect debt securities.

Total liabilities at ₱1.97 trillion, increased ₱15.03 billion, or 0.8%, primarily from the ₱80.79 billion, or 4.7%, increase in **total deposits**, ending at ₱1.80 trillion. The increase is attributable to the growth in CASA deposits at ₱1.44 trillion, up ₱74.30 billion, or 5.4%, tempered by the following account movements:

- **Deferred credits and other liabilities** at ₱42.15 billion, decreased ₱3.71 billion, or 8.1%, primarily from the decrease in other liabilities;
- **Derivative financial liabilities** at ₱4.38 billion, declined ₱1.27 billion, or 22.5%, owing to decreases in certain derivative positions;
- **Liabilities attributable to insurance operations** at ₱13.11 billion, down ₱1.24 billion, or 8.6%, owing to lower reserves and other balances;
- **Accrued taxes, interest and other expenses** at ₱7.77 billion, down ₱1.14 billion, or 12.8%, due to lower accruals on interest and other expenses;
- **Due to BSP and other banks** at ₱1.32 billion, lower by ₱172 million, or 11.5%, on account of lower outstanding balance collected for other banks.

Total capital at ₱291.81 billion, increased ₱11.97 billion, or 4.3%, due to the ₱13.33 billion increase in surplus, ending at ₱178.84 billion. **Reserves** also up by ₱118 million, or 28.4%. **Accumulated other comprehensive loss** at ₱7.57 billion, increased ₱1.67 billion, or 28.3%, as a result of higher cumulative unrealized losses on certain financial assets at fair value through other comprehensive income.

Results of Operations

For the Quarters ended 30 September 2021 and 30 September 2020

Net income of ₱5.66 billion for the third quarter of 2021 was up 3.0%, largely due to lower **impairment losses** recognized at ₱3.75 billion, down ₱2.06 billion, or 35.5%.

Pre-provision operating profit at ₱11.11 billion, down 12.9%, on account of lower **total revenues** at ₱23.51 billion, down 4.5%, and modest increase in **operating expenses** at ₱12.39 billion, up ₱530.19 million, or 4.5%, from the same period last year.

Net interest income at ₱17.30 billion, down ₱666.12 million, or 3.7%, as net interest margin (NIM) contracted 15-basis points (bps) brought about by the 46 bps decline in earning asset yields, partially tempered by the drop in cost of funds.

Interest income, net of GRT stood at ₱21.13 billion, down ₱2.54 billion, or 10.7%, on the back of the following movements in interest income on:

- **Loans and advances** at ₱18.24 billion, down ₱2.07 billion, or 10.2%, due to decline in yields despite higher average asset volume;
- **FA at FV through OCI** at ₱575.82 million and **deposits with BSP and other banks** at ₱473.13 million, both declined on account of lower yields and average asset volume;
- **FA at FV through profit or loss** at ₱106.66 million, up 95.7%, on account of higher average asset volume despite lower yields.

Interest expense at ₱3.83 billion, decreased ₱1.88 billion, or 32.9%, driven by the decrease in interest expense **on deposits** at ₱2.53 billion, down ₱1.91 billion, or 43.0%, on account of lower average volume and cost.

Other income, net of GRT at ₱6.20 billion, decreased ₱453.56 million, or 6.8%, mainly from **trading gain on securities** at ₱155.30 million, down ₱1.01 billion. This was partly offset by the increase in **fees and commissions** by ₱583.74 million, or 14.8%, primarily from higher service charges and underwriting fees. Other notable movements are:

- **Income attributable to insurance operations** at ₱400.83 million, down ₱77.04 million, or 16.1%, due to the lower income contribution of the non-life insurance affiliate;
- **Other operating income** at ₱481.59 million, down ₱26.60 million, or 5.2%,, due to decline in asset sales;
- **Income from foreign exchange trading** at ₱647.74 million, up ₱72.35 million, or 12.6%, due to favorable trading opportunities.

Other expenses at ₱12.39 billion, up ₱530.19 million, or 4.5%, with moderate increase in compensation and fringe benefits at ₱4.67 billion, up ₱288.59 million, or 6.6%, and **occupancy and equipment-related expenses** at ₱4.02 billion, up ₱244.40 million, or 6.5%, on account of the increase in staff benefits from recent CBA and technology-related expenses.

Provision for income tax at ₱1.64 billion, increased ₱295.69 million, or 22.0%, due to lower negative balance of **deferred income tax** at ₱347.42 million, down ₱1.22 billion from last year's ₱1.57 billion, impact brought about by higher loss provisioning in 2020. **Current income tax** at ₱1.99 billion, lower ₱922.83 million, or 31.7%, due to lower income subject to regular corporate income tax.

Income attributable to non-controlling interest at ₱62.30 million, down 43.9%, largely attributable to lower income contribution from the Bank's bancassurance affiliate**.**

Total comprehensive income at ₱5.93 billion, increased ₱1.42 billion, or 31.4%, due to the increase in **total other comprehensive income, net of tax effect of ₱1.24 billion, or 120.8%, on the back of the following movements:**

For Items that may be reclassified subsequently to profit and loss:

- **Net change in fair value reserve on FVOCI securities, net of tax effect** at ₱91.62 million loss, decreased ₱474.58 million, or 83.8%, on account of lower market valuation loss of the Bank's investment securities;
- **Currency translation differences** at ₱143.89 million, up ₱191.34 million, on account of the net effect from cash flow hedging;
- **Fair value reserve on investments of insurance subsidiaries, net of tax effect** at ₱52.47 million loss, decreased ₱31.50 million, or 37.5%, as a result of lower market valuation loss of the insurance subsidiaries' investment funds;
- **Share in other comprehensive loss of associates** at ₱176.85 million, increased ₱49.28 million, on account of the lower valuation of the life insurance affiliate's investment securities;

For Items that will not be reclassified to profit and loss:

- **Share in other comprehensive income of associates** at ₱207.06 million, up ₱409.74 million, or 202.2%, on higher valuation of the bancassurance affiliate's investments relative to the same period last year;

- **Actuarial gains on defined benefit plan, net of tax effect** at ₱0.50 million, decreased ₱4.62 million, on account of the flat movement on valuation of the Bank's consolidated subsidiaries' contribution to the retirement fund.

Income attributable to non-controlling interest at ₱48.58 million, decreased ₱34.69 million, or 249.79%, on account of lower income contribution from the rental and leasing business.

<u>**For the Nine Months ended 30 September 2021 and 30 September 2020**</u>

Net income at ₱17.47 billion, increased 1.77%, from the same period last year, due to lower impairment losses at ₱10.25 billion, down ₱10.22 billion, or 49.9%. Pre-provision operating profit at ₱35.13 billion, down ₱5.83 billion, or 14.2%, due to lower **total revenues** at ₱71.62 billion, down ₱4.59 billion, or 6.0%, and slightly higher **operating expenses** at ₱36.49 billion, up ₱1.24 billion, or 3.5%.

Net interest income at ₱51.17 billion, decreased ₱3.05 billion, or 5.6%, as NIM contracted 20 bps on account of the 73 bps contraction in asset yields.

Interest income, net of GRT stood at ₱62.60 billion, down ₱11.15 billion, or 15.1%, on the back of the overall decreases in interest income on:

- **Loans and advances** at ₱53.84 billion, down ₱9.44 billion, or 14.9%, and FA at amortized cost at ₱5.41 billion, down 15.3%, on account of the decline in yields and average asset volume;
- **FA at FV through OCI** at ₱1.86 billion, down ₱561.98 million, or 23.2%, on account of lower yields despite higher average asset volume;
- **Deposits with BSP and other banks** at ₱1.26 billion, down ₱193.50 million, or 13.3%, on account of lower yields and average asset volume;
- **FA at FV through profit or** loss at ₱237.74 million, up 10.0%, on account of higher average asset volume despite lower yields.

Interest expense at ₱11.44 billion, decreased ₱8.10 billion, or 41.5%, driven by the decrease in interest expense **on deposits** at ₱7.49 billion, down ₱8.34 billion, or 52.7%, partly offset by the increase in **bills payable and other borrowings** at ₱3.94 billion, up ₱242.25 million, or 6.5%.

Other income, net of GRT at ₱20.45 billion, declined ₱1.54 billion, or 7.0%, lower than the ₱21.99 billion earned in the same period last year, mainly from **trading gain on** securities at ₱1.76 billion, down ₱5.05 billion, or 74.2%. Cushioned by the increase in **fees and commissions** of ₱2.78 billion, up 25.19%, due to the increase in transaction-based service charges. Other notable account movements are as follows:

- **Income from foreign exchange trading** at ₱1.56 billion, down ₱150 million, or 8.74%, on account of unfavorable trading opportunities;
- **Other operating income** at ₱2.034 billion, up ₱783 million, or 62.56% due to the increase in miscellaneous income and higher income from the trust business;
- **Income attributable to insurance operations** at ₱1.30 billion, up ₱100.18 million, or 8.4%, due to higher income contribution of the bancassurance affiliates.

Other expenses at ₱36.49 billion, increased ₱1.24 billion, or 3.5%, due to **occupancy and equipment-related expenses** at ₱11.52 billion, up ₱1.06 billion, or 10.1%, mainly driven by investments in technology.

Provision for income tax at ₱7.24 billion, increased ₱4.13 billion, or 132.8%, due to higher **deferred income tax** at ₱1.36 billion, up ₱6.75 billion, or 125.2%, partially tempered by the decrease in **current income tax at** ₱5.88 billion, lower by ₱2.62 billion, or 30.8%. Impact brought about by the adjustment on deferred income tax and reduced new income tax rate with the implementation of CREATE Act.

Income attributable to non-controlling interest at ₱168.49 million, up ₱39.93 million, or 30.2%, attributable to lower income contribution from the Bank's bancassurance affiliate.

Total comprehensive income at ₱15.94 billion, decreased ₱1.93 billion, or 10.8%, due to the decrease in **total other comprehensive loss, net of tax effect** of ₱2.19 billion, or 451.5%, on the back of the following movements:

For Items that may be reclassified subsequently to profit and loss:

- **Net change in fair value reserve on FVOCI securities, net of tax effect** at ₱1.39 billion loss, from a gain of ₱1.24 billion same period last year, on account of negative market valuation of the Bank's investment securities;
- **Share in other comprehensive income of associates** at ₱650.58 million loss, from gain of ₱416.94 million a year ago, on lower valuation of the bancassurance affiliate's investments relative to last year;
- **Fair value reserve on investments of insurance subsidiaries, net of tax effect** at ₱122.04 million loss, from a gain of ₱195.63 million same period last year, as a result of lower market valuation of the insurance subsidiaries' investment funds;
- **Currency translation differences was favorable** at ₱593.52 million, up ₱923.76 million, on account of the net effect of cash flow hedging and strengthening of the Euro Currency.

For Items that will not be reclassified to profit and loss:

- **Actuarial losses on defined benefit plan, net of tax effect** at ₱422.72 million, increased ₱423.11 million, due to the change in valuation of the Bank's consolidated subsidiaries' contribution to the retirement fund;
- **Share in other comprehensive income of associates** at ₱284.50 million, up ₱1.32 billion, on account of the higher valuation of the life insurance affiliate's investment securities.

Income attributable to non-controlling interest at ₱130.40 million, decreased ₱65.92 million, or 33.7%, on account of lower income contribution from the Bank's bancassurance affiliate.

Key Performance Indicators

The following ratios, applied on a consolidated basis, are used to assess the performance of the Bank and its majority owned subsidiaries:

	30 September 2020	**30 September 2021**
Return on Equity (%)	8.32%	8.25%
Return on Assets (%)	1.05%	1.07%
Net Interest Margin (%)	3.51%	3.31%
Operating Efficiency Ratio (%)	46.25%	50.95%
Capital Adequacy Ratio (%)- Basel III	17.72%	17.64%

Return on equity (ROE), the ratio of net income to average equity, was at 8.25%, lower compared to last year's 8.32%, as the expansion in average equity outpaced the growth in net income.

Return on assets (ROA), the ratio of net income to average assets, was higher at 1.07%, compared to last year's 1.05%, due to the increase in net income of 1.77% compared to the expansion in average asset base of 0.2%.

Net interest margin (NIM), net interest income divided by average interest-bearing assets, at 3.31% was lower by 20 basis points than the 3.51% in 2020, due to decline in asset yields, partly tempered by the drop in cost of funds.

Operating efficiency (cost to income) ratio, the ratio of operating expenses to income, increased to 50.95% from 46.25% in the same period last year, as revenues declined and operating expenses slightly increased.

Capital adequacy ratio (CAR), the ratio of total qualifying capital to total risk-weighted assets, was at 17.64%, lower versus the prior year's 17.72%, as the growth in risk-weighted assets outpaced the growth in qualifying capital. The CET 1 ratio at 16.76%, was also lower than the 16.84% from the same period last year. The Bank's capital ratios for the period ended 30 September 2021 and 30 September 2020 are above the BSP's minimum requirement.

Financial Inclusion

BPI has grown the nationwide network of its wholly-owned microfinance bank, BPI Direct BanKo, to 307 branches with three (3) branches opened in 2021. Fifty-eight percent of BanKo's branches and branch-lite units are located in town centers in North and South Luzon, while the rest are distributed throughout various municipalities in Visayas and Mindanao. Now in its fifth year of microfinance operations, BanKo has been increasing its loan portfolio by 154% year on year. From only 2,495 clients in 2016, BanKo has since served over 196,740 self-employed micro-entrepreneurs, providing business loans and financial advice.

Updated Description of the Bank's Assets and Liabilities

The tables below and accompanying discussions provide selected financial highlights regarding the Bank's assets and liabilities. The following unaudited information should be read together with the Bank's financial statements included in this Final Pricing Supplement as well as "Selected Statistical Data" in this Final Pricing Supplement, and "Risk Management" and "Description of the Bank" in the Offering Circular.

Funding

(a) *Overview*

The Bank's funding is primarily provided by time, savings and demand deposits. Of the total amount of deposits of ₱1.8 trillion as of 30 September 2021, 19.9% thereof pertain to time deposits, 60.4% pertain to savings deposits, and 19.7% pertain to demand deposits. The Bank also sources part of its funding requirements from the interbank market, which generally results in lower overall funding cost.

(b) *Sources of Funding*

The Bank's principal source of deposits is private individuals. As of 30 September 2021, these accounted for 65.7% of total deposit liabilities.

The Bank has been successful in attracting and retaining its low-cost deposit base. While the cost of deposits is largely driven by interest rate movements, the average cost of deposits is also bolstered by the continued increase in the share of CASA to total deposits. The Bank intends to continue to grow its CASA through the launching of CASA products bundled with the Bank's other product and service offerings and enhanced digital banking platforms. The maturities of the Bank's funding portfolio enable it to achieve funding stability and liquidity while achieving its desired profile of loan and deposit maturities. The Bank's depositors typically roll over their deposits at maturity, effectively providing the Bank with a base of core liquidity.

The following tables set out an analysis of the Bank's principal sources of funding as of the periods indicated[1]:

	For the year ended 31 December					
	2018		2019		2020	
	Volume	Average Cost of Funding[(2)]	Volume	Average Cost of Funding[(2)]	Volume	Average Cost of Funding[(2)]
			(₱ millions, except percentages)			
Deposits by type:						
Demand	256,279	0.3%	272,020	0.2%	314,853	0.2%
Savings	883,650	0.8%	899,181	0.8%	1,051,069	0.6%
Time	445,817	3.4%	524,142	4.5%	350,255	2.8%
Total	**1,585,746**	**1.4%**	1,695,343	**1.8%**	**1,716,177**	**1.1%**
Deposits by currency:						
Peso	1,337,506	1.2%	1,459,701	1.6%	1,469,851	1.0%
Foreign	248,240	0.9%	235,642	1.0%	246,326	0.4%
Total	**1,585,746**	**1.4%**	**1,695,343**	**1.8%**	**1,716,177**	**1.1%**
Deposits by classification:						
Low Cost	1,139,929		1,171,201		1,365,922	
Term	445,817		524,142		350,255	
Total	**1,585,746**		**1,695,343**		**1,716,177**	
Bills Payable and Other Borrowed Funds:						
Peso	96,265		64,371		83,753	
Foreign	70,636		86,466		68,194	
Total	**166,901**	**3.8%**	**150,837**	**4.8%**	**151,947**	**3.8%**
Acceptances Payable:						
Peso	5		30		20	
Foreign	2,389		3,825		914	
Total	**2,394**		**3,855**		**934**	

Notes:

(1) 2018, 2019, 2021 and September 2020 restated with impact of discontinued operation arising from BPICTL transaction.

(2) Average cost of funding represents total interest expense for the year divided by the simple average liability for the respective period, expressed as a percentage.

	For the nine months ended 30 September			
	2020		2021	
	Volume	Average Cost of Funding[(2)]	Volume	Average Cost of Funding[(2)]
	(₱ millions, except percentages)			
Deposits by type:				
Demand	295,881	0.2%	354,226	0.1%
Savings	988,323	0.7%	1,085,997	0.3%
Time	400,791	3.0%	356,743	2.0%
Total	**1,684,995**	**1.2%**	**1,796,966**	**0.6%**
Deposits by currency:				
Peso	1,437,301	1.4%	1,527,480	0.7%
Foreign	247,694	0.5%	269,486	0.1%
Total	**1,684,995**	**1.2%**	**1,796,966**	**0.6%**
Deposits by classification:				
Low Cost	1,284,204		1,440,223	
Term	400,791		356,743	
Total	**1,684,995**		**1,796,966**	
Bills Payable and Other Borrowed Funds:				
Peso	88,775		46,319	
Foreign	65,731		47,421	
Total	**154,506**	**3.9**	**93,740**	**4.00**
Acceptances Payable:				
Peso	151		213	
Foreign	2,716		2,659	
Total	**2,867**		**2,872**	

Notes:

(1) 2018, 2019, 2021 and September 2020 restated with impact of discontinued operation arising from BPICTL transaction.

(2) Average cost of funding represents total interest expense for the period divided by the simple average liability for the respective period, expressed as a percentage.

As of 30 September 2021, 80.1% of the Bank's outstanding deposits were demand and savings deposits, both of which can be withdrawn on demand without any prior notice from the customer. The following table sets out an analysis of the maturities of the deposit base of the Bank as of the dates indicated:

	As of 31 December			As of 30 September
	2018	2019	2020	2021
		(₱ millions)		
Demand	256,279	272,020	314,853	354,226
Savings	883,650	899,181	1,051,069	1,085,997
Time	445,817	524,142	350,255	356,743
Up to 1 year	330,845	424,455	262,885	273,844
More than 1 year	114,972	99,687	87,370	82,899
Total	**1,585,746**	**1,695,343**	**1,716,177**	**1,796,966**

The Bank also maintains credit lines with domestic commercial banks and financial institutions in the interbank market, mainly for treasury management purposes. Interbank borrowings are mostly short-term in duration and have historically accounted for a minor portion of the Bank's total funding requirements.

The Bank is a member of the Philippine Deposit Insurance Corporation (the **PDIC**), which insures all deposits up to a maximum of ₱0.50 million per depositor. The PDIC is funded by semi-annual assessment fees at a prescribed percentage of the Bank's deposit liabilities less certain exclusions.

(c) *Liquidity*

As of the date of this Final Pricing Supplement, Peso deposits and deposit substitutes of universal and commercial banks are subject to a 12% reserve requirement. Required reserves must be kept in the form of deposits placed in the Bank's demand deposit account (**DDA**) with the BSP. Sufficient asset cover is likewise provided for foreign-denominated liabilities. The Bank follows BSP regulations that require depository banks under the foreign currency deposit system to maintain at all times a 100% asset cover for their foreign currency liabilities, of which at least 30% must be in the form of liquid assets.

As of 31 December 2020, the Bank's liquid assets amounted to ₱981 million, or 43.9% of the Bank's total assets. The Bank's liquid assets consisted largely of government securities, cash, and other liquid assets to cover primary reserves requirement for deposits as well as to maintain a significant level of secondary reserves to fund any potential increase in loan demand. The following table sets forth information with respect to the Bank's liquidity position as of the dates indicated:

	As of 31 December		
	2018	2019	2020
	(₱ millions, except percentages)		
Liquid Assets[(1)]	**950,813**	**897,122**	**980,715**
Cash and Other Cash Items	43,536	47,256	37,176
Due from BSP	225,907	207,845	223,989
Due from Other Banks	12,477	22,356	40,155
Interbank Loans Receivable and Securities Purchased Under Agreements to Resell	34,253	22,509	30,167
Derivative Assets	4,033	2,933	4,788
Financial Assets at Fair Value through Profit or Loss	12,688	21,172	32,422
Investment Securities, net			
Financial Assets at Fair Value through OCI	27,910	3,105	42,777
Financial Assets at Amortised Cost	30,159	15,165	46,389
Loan and Advances, Gross	554,183	552,190	520,304
Other Financial Assets	5,667	2,591	2,548
Total Assets	**2,085,228**	**2,205,030**	**2,233,443**
Total Deposits	**1,585,746**	**1,695,343**	**1,716,177**
Net Loans[(2)]	**1,354,896**	**1,475,336**	**1,407,413**
Financial Ratios			
Liquid Assets to Total Assets	45.6%	40.7%	43.9%
Liquid Assets to Total Deposits	60.0%	52.9%	57.1%
Net Loans to Total Deposits	85.4%	87.0%	82.0%

Notes:

(1) Liquid assets include all financial assets due within one year.

(2) Receivable from customers, net of allowance for credit losses and unearned discounts.

(d) *Liquidity Management*

The Bank manages its liquidity to meet financial liabilities arising from the withdrawal of deposits, repayments of deposits at maturity and working capital needs. Funds are required to create assets in the form of loans and extensions of other forms of credit, investments in securities, trade financing and capital investments. The Bank seeks to ensure sufficient liquidity through a combination of active management of liabilities, a liquid asset portfolio, the securing of ample money market lines and swap lines and the maintenance of repurchase facilities. Liquidity risk on funding mainly comes from mismatches in asset, liability and exchange contract maturities. The Bank manages liquidity risk by setting and maintaining a minimum cumulative liquidity gap (**MCLG**, which is the smallest net cumulative cash inflow or the largest net cumulative cash outflow), conducting internal and regulatory stress tests and testing the Bank's contingency funding plan. The Bank's market and liquidity risk exposures are generally well within the Board-approved value-at-risk (**VaR**), stop loss and other risk limits set by the Bank and its subsidiaries.

The Bank's asset and liability committee (**ALCO**) is directly responsible for liquidity risk exposure. ALCO regularly monitors the Bank's positions and sets appropriate fund transfer prices to effectively manage movement of funds across business activities.

Securities Portfolio

The Bank classifies its securities in the following three categories: financial assets at fair value through profit and loss (**FVPL**), financial assets at amortised cost investments and financial assets at fair value through other comprehensive income (**FVOCI**) investments. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Securities are classified as FVOCI investments when purchased and held indefinitely, but which the Bank expects to sell in response to liquidity requirements or changes in market conditions. Financial assets at FVPL include debt and equity securities that have been acquired principally for the purpose of selling or repurchasing in the near term. Amortised Cost investments are quoted, non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the intention and ability to hold to maturity.

As of 30 September 2021, the Bank's investments (exclusive of derivatives) comprised 17.9% of its total assets. The table below shows the balances of the Bank's securities as of the dates indicated:

	As of 31 December						As of 30 September	
	2018		2019		2020		2021	2021
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	(₱ millions)							
Financial Assets at FVTPL	12,688	12,688	21,172	21,172	32,422	32,422	46,822	46,822
Investment Securities, net Financial Assets at FVOCI	37,206	37,206	53,905	53,905	130,186	130,186	127,056	127,056
Financial Assets at Amortised Cost	287,571	258,652	275,105	276,454	244,653	253,097	230,231	235,596
Total..	**337,465**	**308,546**	**350,182**	**351,531**	**407,261**	**415,705**	**404,109**	**409,474**

Loan Portfolio

As of 30 September 2021, the Bank's gross loan portfolio amounted to ₱1.4 trillion, representing 63.6% of total assets. Large corporate loans, SME loans, and consumer loans make up 75.9%, 4.4% and 19.7%, respectively, of the Bank's total loan portfolio as of 30 September 2021.

The following table sets out the distribution of the total loan portfolio held by the Bank among its principal lending units as of the dates indicated:

	As of 31 December			As of 30 September
	2018	2019	2020	2021
	(₱ millions)			
Corporate Entities				
Large Corporate Customers	1,043,855	1,147,643	1,112,069	1,092,266
Small-and-Medium-Sized Enterprise	87,998	73,357	66,869	62,961
Retail Customers				
Credit Cards	60,843	75,100	68,057	70,444
Real Estate Mortgages	126,088	137,380	140,552	150,941
Auto Loans	51,845	53,789	51,045	50,185
Others	5,145	11,421	11,616	11,495
Total	**1,375,774**	**1,498,690**	**1,450,208**	**1,438,292**

(a) *Industry concentration*

The real estate (25.5%), manufacturing (14.6%), electricity, gas, and water (11.1%), wholesale and retail trade financial institutions (10.8%), and consumer sectors (8.1%) have, in general, represented the largest sectors of the Bank's loan portfolio as of 30 September 2021.

Under guidelines established by the BSP, loan concentration is considered to exist when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. BSP regulations require banks to allocate 25% of their loanable funds for agricultural credit in general, of which at least 10% is to be made available for agrarian reform credit. Alternatively, a bank may temporarily meet all or a portion of its agrarian reform and agricultural lending requirements by investing in eligible government securities under certain conditions. Failure to comply with required credit to the agrarian reform and agricultural sectors may result in sanctions, including an annual penalty of 0.5% of the amount of non-compliance/under-compliance. For the years ended 31 December 2018, 2019 and 2020, and the nine months ended 30 September 2021 and 2020, the Bank was fined ₱491.7 million, ₱589.0 million, ₱822.0 million, ₱590.1 million and ₱612.8 million respectively, for its failure to fully comply with Agri-Agra mandated lending. The amount of loans to be extended by the Bank under Agri-Agra amounts to approximately ₱269.8 billion as of 30 September 2021.

The BSP has also mandated banks to allocate credit resources of at least 8% of their total loan portfolio as of the end of the previous quarter for micro-and-small-enterprises (**MSEs**) and at least 2% for medium-enterprises (**MEs**). Sanctions include monetary fines of ₱500,000 for non-compliance while the amount of under-compliance is expressed as a percentage of the applicable requirement multiplied by ₱400,000 for MSEs and by ₱100,000 for MEs. For the years ended 31 December 2018, 2019, and 2020, and the nine months ended 30 September 2021 and 2020, the Bank was fined ₱0.25 million, ₱0.28 million, ₱0.27 million, ₱0.28 million, and ₱0.29 million, respectively, for failure to extend loans in a sufficient amount to MSMEs. The amount of credit to be extended by the Bank to MSMEs amounted to ₱120.7 billion as of 30 September 2021. Because the Bank is unable to generate sufficient exposure to the Agri-Agra or MSMEs sectors that meet its credit and risk management standards, the Bank has paid fines in the past and may continue to do so in the future.

The following table sets forth an analysis of the Bank's loan portfolio by economic activity as of the dates indicated, as defined and categorised by the BSP:

	As of 31 December						As of 30 September	
	2018		2019		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)							
Consumer	114,277	8.3%	130,648	8.8%	121,593	8.4%	116,692	8.1%
Manufacturing	223,365	16.3%	228,697	15.3%	216,884	15.0%	208,793	14.6%
Real estate, renting and other related activities	314,398	23.0%	366,077	24.5%	367,527	25.4%	364,956	25.5%
Wholesale and retail	172,597	12.6%	169,828	11.4%	159,144	11.0%	155,021	10.8%
Agriculture, fishing and forestry	37,539	2.7%	42,852	2.9%	36,502	2.5%	31,987	2.2%
Electricity, gas and water	130,944	9.6%	149,566	10.0%	169,824	11.8%	158,659	11.1%
Transport and storage	27,732	2.0%	28,319	1.9%	28,234	2.0%	34,721	2.4%
Information and communication	58,840	4.3%	73,798	4.9%	73,428	5.1%	94,806	6.6%
Construction	27,409	2.0%	27,347	1.8%	32,752	2.3%	35,040	2.4%
Financial intermediaries	83,462	6.1%	161,568	10.8%	128,683	8.9%	113,612	7.9%
Others	178,781	13.1%	112,950	7.6%	110,625	7.7%	118,685	8.3%
Total	**1,369,344**	**100.0%**	**1,491,650**	**100.0%**	**1,445,195**	**100.0%**	**1,432,972**	**100.0%**

(b) *Loan Maturity Profile*

As of 30 September 2021, 32.7% of the Bank's loan portfolio had a maturity of one year or less. The following table sets forth an analysis of the Bank's loan portfolio by maturity as of the dates indicated:

	As of 31 December						As of 30 September	
	2018		2019		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)							
Within one year[(1)]	540,450	39.5%	548,837	36.8%	517,224	35.8%	469,027	32.7%
More than one year	828,894	60.5%	942,813	63.2%	927,971	64.2%	963,945	67.3%
Total	**1,369,344**	**100.0%**	**1,491,650**	**100.0%**	**1,445,195**	**100.0%**	**1,432,972**	**100.0%**

Note:

(1) Includes past due loans.

(c) *Foreign Currency Denominated Loans*

As of 30 September 2021, 91.4% of the Bank's loan portfolio was denominated in Pesos while 8.6% was denominated in a foreign currency, 93.6% of which was comprised of U.S. dollars.

The following table sets forth an analysis of the Bank's loans by currency as of the dates indicated:

	As of 31 December						As of 30 September	
	2018		2019		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)							
Philippine Peso	1,218,379	89.0%	1,335,017	89.5%	1,314,080	90.9%	1,309,640	91.4%
Foreign Currency	150,965	11.0%	156,633	10.5%	131,115	9.1%	123,332	8.6%
U.S. Dollars	145,995	96.7%	149,012	95.1%	120,709	92.1%	115,472	93.6%
Others	4,970	3.3%	7,621	4.9%	10,406	7.9%	7,860	6.4%
Total	**1,369,344**	**100.0%**	**1,491,650**	**100.0%**	**1,445,195**	**100.0%**	**1,432,972**	**100.0%**

(d) *Interest Rates*

As of 30 September 2021, 89.2% of the Bank's total loan portfolio are subject to repricing. The Bank sets interest rates for floating rate Peso-denominated loans based on market rates for Philippine government securities and for floating rate U.S. dollar-denominated loans based on U.S. dollar London Interbank Offered Rate (**LIBOR**). The floating rate loans are repriced for interest periods of typically 30 to 90 days.

The following table sets forth the total amount of the Bank's loan exposure to interest rate risk, on a consolidated basis, categorised by the earlier of contractual repricing or maturity dates:

	As of 31 December						As of 30 September	
	2018		2019		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)							
Repricing	1,227,757	89.7%	1,332,760	89.3%	1,293,264	89.5%	1,278,446	89.2%
Up to one year	833,657	67.9%	887,474	66.6%	489,033	37.8%	436,348	34.1%
Over 1 up to 3 years	129,410	10.5%	136,081	10.2%	223,545	17.3%	281,053	22.0%
Over 3 years	264,690	21.6%	309,205	23.2%	580,686	44.9%	561,045	43.9%
Non-repricing	141,587	10.3%	158,890	10.7%	151,931	10.5%	154,526	10.8%
Total Loans	**1,369,344**	**100.0%**	**1,491,650**	**100.0%**	**1,445,195**	**100.0%**	**1,432,972**	**100.0%**

(e) ***Sizes and concentration of loans***

The BSP generally disallows any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25% of the Bank's unimpaired capital and surplus, which includes combined capital accounts, paid-in-capital and surplus, but excludes unbooked reserves for valuation purposes, liabilities and deferred income tax. As of 30 September 2021, the Bank is in compliance with this borrower's limit with all of its loans.

The Bank monitors its financial exposure to its customers in order to ensure that concentration risk is prudently managed. As of 30 September 2021, the Bank's ten largest individual borrowers accounted for 13.4% of the Bank's total outstanding loan portfolio. As of 30 September 2021, the Bank's ten largest borrower groups in the aggregate accounted for 27.6% of its outstanding loan portfolio. There are no NPLs in the top ten loan accounts.

Secured and Unsecured Loans

The following table sets forth the Bank's secured and unsecured loans, and the type of collateral as of the dates indicated:

	As of 31 December						As of 30 September	
	2018		2019		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)							
Secured	447,821	32.7%	483,521	32.4%	512,761	35.5%	511,483	35.7%
Real estate mortgage	220,587	49.3%	278,099	57.5%	257,311	50.2%	261,086	51.0%
Chattel mortgage	54,731	12.2%	57,037	11.8%	51,821	10.1%	50,868	9.9%
Others	172,503	38.5%	148,385	30.7%	203,629	39.7%	199,529	39.0%
Unsecured	921,523	67.3%	1,008,129	67.6%	932,434	64.5%	921,489	64.3%
Total	**1,369,344**	**100.0%**	**1,491,650**	**100.0%**	**1,445,195**	**100.0%**	**1,432,972**	**100.0%**

As of 30 September 2021, 64.3% of the Bank's total loans are unsecured.

(a) ***Loans to Directors, Officers, Shareholders and their Related Interests***

The Bank extends loans to its directors, officers, shareholders and their related interests (collectively referred to as **DOSRI**) in the normal course of business and on equal terms with those offered to unrelated third parties. The BSP imposes an aggregate ceiling of 15% of the bank's loan portfolio for these types of loans or 100% of net worth, whichever is lower with the unsecured portion limited to 30% of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower. As of 30 September 2021, DOSRI loans amounted to 1.36% of the Bank's total loans and advances.

Loan Classification and Loan Loss Provisioning

In measuring credit risk of loans and advances at a counterparty level, the Bank considers three components: (i) the probability of default by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development; and (iii) the likely recovery ratio on the defaulted obligations. In the evaluation process, the Bank also considers the conditions of the industry and sector to which the counterparty is exposed, other existing exposures to the industry/sector to which the counterparty may be related as well as the client and the Bank's fallback position assuming the worst-case scenario. Outstanding and potential credit exposures are reviewed to likewise ensure that they conform to existing internal credit policies.

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various counterparty categories. The Bank has internal credit risk rating systems that are designed for corporate, SMEs and retail accounts, that measure the borrower's credit risk based on quantitative and qualitative factors. The ratings of individual borrowers may subsequently fluctuate between classes as the assessment of the borrower's probability of default changes. For retail, the consumer credit scoring system is a formula-based model for evaluating each credit application against a set of characteristics that are considered relevant and reliable in predicting repayment. The Bank regularly validates the performance of the rating systems and their predictive power with regard to default events and enhances them if necessary.

The Bank's internal ratings are created in line with general BSP guidelines in administering and classifying loans and are classified as follows:

- Unclassified Loans – these are loans that do not have a greater-than-normal risk and do not possess the characteristics of loans classified below. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated;
- Loans especially mentioned – these are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase the credit risk of the Bank;
- Substandard Loans – these are loans which appear to involve a substantial degree of risk to the Bank because of unfavourable records or unsatisfactory characteristics. Further, these are loans with well-defined weaknesses which may include adverse trends or development of a financial, managerial, economic or political nature, or a significant deterioration in collateral;
- Doubtful Loans – these are loans which have weaknesses similar to those of the substandard classification with additional facts, conditions and values that make collection or liquidation in full highly improbable and substantial loss is probable; and
- Loss Loans – these are loans which are considered uncollectible and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

The table below sets forth a summary of the risk classification of the Bank's aggregate loan portfolio as a percentage of outstanding loans as of the dates indicated:

	As of 31 December						As of 30 September	
	2018		2019		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)							
Classified	22,224	1.61%	25,376	1.69%	61,706	4.24%	62,253	4.32%
Especially mentioned	7,779	0.56%	8,721	0.58%	15,468	1.06%	21,128	1.47%
Substandard secured	2,558	0.19%	2,145	0.14%	21,812	1.50%	12,356	0.86%
Substandard unsecured	5,399	0.39%	6,811	0.45%	14,019	0.96%	14,497	1.01%
Doubtful	2,542	0.18%	3,124	0.21%	4,605	0.32%	10,086	0.70%
Loss	3,946	0.29%	4,575	0.30%	5,802	0.40%	4,186	0.29%
Unclassified	1,355,574	98.39%	1,475,934	98.31%	1,392,465	95.76%	1,378,204	95.68%
Total	**1,377,798**	**100.00%**	**1,501,310**	**100.00%**	**1,454,171**	**100.0%**	**1,440,457**	**100.0%**

(a) ***Non-Performing Assets***

The table below sets forth details of the NPAs (as defined in the table below), non-accruing loans, Real and Other Properties Acquired (**ROPA**) (as defined in the table below), restructured loans and write-offs for loan losses as of the dates indicated:

	As of 31 December			As of 30 September
	2018	2019	2020	2021
	(₱ millions, except percentages)			
Total Loans (gross)	1,369,344	1,491,650	1,444,195	1,432,972
Non-performing loans (NPLs), gross[(1)]	25,391	24,835	38,753	39,097
Non-performing loans (NPLs), net[(1)]	12,794	9,531	24,270	12,905
ROPA, Gross	6,617	6,010	5,788	6,080
ROPA, Net	3,363	3,155	2,971	3,154
Total non-performing assets (NPAs), net	16,157	12,686	27,241	16,059
Total assets	2,085,228	2,205,030	2,233,443	2,260,387
NPAs to total assets	0.77%	0.58%	1.22%	0.71%
Allowance for impairment and credit losses (total)	25,684	28,220	47,465	54,035
Allowance for credit losses (loans)	22,430	25,366	44,648	51,109
Allowance for impairment losses (ROPA)	3,254	2,854	2,817	2,926
Allowance for credit losses (loans) to total non-performing loans, gross	88.3%	102.1%	115.2%	130.7%
Allowance for impairment and credit losses (total) to total non-performing assets	80.2%	91.5%	106.6%	119.6%
Total restructured loans	217.3	440.2	15,875	28,338
Restructured loans to total loans (gross)	0.02%	0.03%	1.10%	1.98%
Loans – written off	2,276	2,645	5,243	3,045

Note:
(1) NPLs for December 2018, December 2019 and September 2021 are based on BSP circular 941.

(b) *Sectoral analysis of non-performing loans*

The following table sets forth, as at the dates indicated, the Bank's gross NPLs by the respective borrowers' industry or economic activity and as a percentage of the Bank's gross NPLs as of the dates indicated:

	As of 31 December						As of 30 September	
	2018		2019		2020		2021	
	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)							
Consumer	5,793	22.8%	6,361	25.6%	9,905	25.6%	9,524	24.4%
Manufacturing (various)	1,285	5.1%	2,876	11.6%	3,040	7.8%	3,432	8.8%
Real estate, renting and other related activities	7,760	30.6%	6,894	27.8%	12,823	33.1%	11,398	29.2%
Wholesale and retail	3,448	13.6%	2,619	10.5%	3,632	9.4%	3,950	10.1%
Agriculture, fishing and Forestry	747	2.9%	746	3.0%	939	2.4%	836	2.1%
Electricity, gas and water	335	1.3%	349	1.4%	341	0.9%	310	0.8%
Transport and storage	392	1.5%	336	1.4%	258	0.7%	608	1.6%
Information and communication	724	2.9%	609	2.5%	666	1.7%	471	1.2%
Construction	769	3.0%	918	3.7%	1,038	2.7%	3,894	10.0%
Financial intermediaries	276	1.1%	329	1.3%	300	0.8%	258	0.7%
Others	3,862	15.2%	2,798	11.2%	5,811	15.0%	4,416	11.1%
Total	**25,391**	**100.0%**	**24,835**	**100.0%**	**38,753**	**100.0%**	**39,097**	**100.0%**

Changes in Directors and Management

Newly appointed Directors

1. **Cesar V. Purisima**

   On 20 January 2021, Mr. Cesar V. Purisima was elected as an Independent Director replacing Mr. Xavier P. Loinaz.

   Mr. Cesar V. Purisima, Filipino, 61, was first elected as Independent Director of the Bank of the Philippine Islands during its Board meeting held on 20 January 2021. Mr. Purisima was also re-elected as Independent Director for the term 2021-2022. He is also an Independent Director of BPI Capital Corporation, a BPI subsidiary.

   Mr. Purisima currently holds the following directorships in publicly-listed companies: Independent Director of Ayala Land, Inc.; Independent Director of Universal Robina Corporation; and Independent Director of Jollibee Foods Corporation.

   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. 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 SGV & Co.

Mr. Purisima is a Certified Public Accountant and has extensive experience in public accounting both in the Philippines and abroad. Apart from his private sector experience, he also previously served on the boards of a number of government institutions, including as a member of the Monetary Board of the 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. He was conferred the Chevalier dans I'Ordre national de Ia 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 I'Ordre national du Merite (Knight of the National Order of Merit) by the President of the French Republic in 2001.

He is also a founding partner of lkhlas Capital Singapore Pte. Ltd., a pan-ASEAN private equity platform. He is a member of the Board of AlA Group Limited, and a member of the Global Advisory Council of Sumitomo Mitsui Banking Corporation.

He is a member of Singapore Management University's lnternational 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, non-partisan think tank.

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.

2. Janet Guat Har Ang

On 19 May 2021, Ms. Janet Guat Har Ang was elected as an Independent Director replacing Ms. Mercedita S. Nolledo

Ms. Janet Guat Har Ang, Singaporean, 61, was elected as Independent Director of the Bank of the Philippine Islands during its Board meeting held on 19 May 2021.

Ms. Janet Guat Har Ang is currently the Chairperson of SISTIC.com and non-Executive Director at Singapore Press Holdings Limited.

Ms. Ang spent 32 years with IBM Singapore and was IBM Vice President, Head of Industry Solutions and Smarter Cities & Industry Solutions for Asia Pacific from 2015 to 2019 and prior to that, IBM Singapore Managing Director from 2001 to 2003 and again from 2011 to 2015. She is a veteran in the techology industry and has lived and worked in Japan and China for over a decade. Janet has a diverse background having managed IBM Services in Greater China, IBM Sales Operations across Asia Pacific and Lenovo Desktop Operations globally.

Ms. Ang was awarded The Public Service Medal in 2019. She was also awarded the NUS Business School Eminent Alumni Award in 2014, the NUS Distinguished Alumni Service Award in 2015 and the Singapore Computer Society IT Leaders Award – Hall of Fame in 2018.

She is the Deputy Chairman of the Singapore Business Federation Foundation, and Member of the Board of the Esplanade Company Ltd, and the Home Team Science & Technology Agency (HTX), chairing its Finance & Risk Committee.

She serves as Chairman of the NUS Institute of Systems Science, the Caritas Singapore Agape Fund Board of Trustees, SISTIC.com and the Singapore Polytechnic Board of Governors.

Janet serves on the NUS Alumni Advisory Board and the Council for Board Diversity as well as the Singapore Business Federation chairing its Digitalisation Committee. She is a Fellow of the Singapore Computer Society, is a Member of the International Women's Forum (Singapore), and an alumnus of the IBM Industry Academy. She has been appointed as Singapore's Non-Resident Ambassador (Designate) to the Holy See and Nominated MP of the Parliament of Singapore.

Ms. Ang graduated with a Bachelor of Business Administration (Honours) from the National University of Singapore

3. René G. Bañez

On 18 August 2021, Atty. René G. Bañez was elected as a Non-Executive Director replacing Ms. Rebecca G. Fernando.

Atty. René G. Bañez, Filipino, 66, was elected as Non-Executive Director of the Bank of the Philippine Islands during its Board meeting held on 18 August 2021. Atty. Bañez is also a member of the Board of Directors of BPI subsidiaries including BPI Capital Corporation, BPI Family Savings Bank, Inc., and BPI Asset Management and Trust Corporation.

Atty. Bañez served in the government as the Commissioner of the Bureau of Internal Revenue (**BIR**) from February 2001 to August 2002 and as Deputy Commissioner from June 1993 to November 1995. Apart from serving the government, Atty. Bañez also served in the private sector and held senior level positions in Isla Lipana & Co./PwC Philippines (formerly Joaquin Cunanan & Co.), Metro Pacific Investment Corporation and PLDT. He was a faculty member at the Ateneo de Manila University College of Law, handling Taxation, from 1990 to 2007.

Atty. Bañez spent more than 11 years at accounting firm Isla Lipana & Co./PwC (formerly Joaquin Cunanan & Co.), starting as a Tax Consultant in 1982 until he became Tax Principal (Partner) from 1990 to 1993. Until his retirement from PLDT in 2016, he was Senior Vice President and Head of the Supply Chain, Asset Protection and Management Group, from 2008 to 2016; Senior Vice President and Chief Governance Officer from 2004 to 2007; Corporate Governance Advisor from 2003 to 2004; Senior Vice President, Support Services and Tax Management from 2000 to 2001; and First Vice President, Support Services and Tax Management from 1998 to 2000. Prior to joining PLDT, he was Group Tax Director of Metro Pacific Investment Corporation until 1998.

He is also affiliated with the Equestrian Order of the Holy Sepulchre, and is a Member of the Finance Board of the Archdiocese of Manila and Diocese of Pasig. He is also a Board Member/Trustee of Radio Veritas Corporation, Pope Pius Foundation, Catholic Travel Inc., Mirador Jesuit Villa & Retreat House Corporation, Loyola School of Theology Corporation, and Unitas Asia Corp. (a subsidiary of Radio Veritas Asia).

Atty. Bañez graduated with a Bachelor of Laws degree in 1981 and his Bachelor of Arts degree in 1976 both from Ateneo de Manila University.

4. Ramon R. Del Rosario, Jr.

In its meeting on 20 January 2021, the Board elected Ramon R. Del Rosario, Jr. as a Non-Executive Director, reclassifying him from Independent Director to Non-Executive Director.

Newly appointed Officers

1. Jose Teodoro K. Limcaoco

On 22 April 2021, Mr. Jose Teodoro K. Limcaoco was elected as President, replacing Mr. Cezar P. Consing.

Mr. Jose Teodoro K. Limcaoco, Filipino, 59, was elected as Executive Director of the Bank of the Philippine Islands for the term 2021-2022. Mr. Limcaoco also serves as Chairman of BPI's thrift bank, investment bank, asset management, and property and casualty insurance, and vice chairman of its leasing and rental, foundation; and is also a board director of BPI's life insurance and UK bank subsidiaries.

Before coming to BPI, he was the Chief Finance Officer, Chief Risk Officer, and Chief Sustainability Officer of Ayala Corporation, a PSE-listed company. He was the President and CEO of AC Ventures Holding Corp. He was also a Director of several Ayala companies, including publicly listed Globe Telecom and Integrated Micro-electronics Inc., and the energy, infrastructure, industrials and healthcare companies of Ayala. He was also a director of the company that operates Zalora Philippines. He remains a director of Mynt, operator of GCash.

Previously, he served as President of BPI Family Savings Bank from 2010-2015 and President of BPI Capital Corporation from 2007-2010. He has also served as Officer-in-Charge for Ayala Life Assurance, Inc. and as Director and Chairman of Ayala Plans, 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. in Singapore and New York and with BZW Asia.

He is the President of FTL Holdings Corporation and a Director of AC Energy International, Inc. (formerly Presage Corporation), Olimpia Condo Corporation, Gym & Sports Pte Ltd., Globe Fintech Innovations Inc. and Just For Kids, Inc., a family business. He is a Trustee of Ayala Group Club, Inc. and a Past President of the Rotary Club of Makati West.

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

Debt Capital Markets

Medium-Term Note (MTN) Program

On 21 June 2018, the Board of Directors of BPI has approved the establishment of the Medium-Term Note 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 (in ₱ millions)
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	2.50%	September 10, 2024	15,572
CHF 100 million, 2-year senior unsecured Green Bonds	September 24, 2019	0.00%	September 24, 2021	5,250

The CHF-denominated bonds are designated as hedged items in a cash flow hedge initiated by BPI in 2019. These bonds matured on 24 September 2021, resulting in a cash settlement of CHF100 million or ₱5,493 million.

Peso Bond and Commercial Paper Program

On 24 January 2020, BPI issued ₱15.3 billion worth of First Tranche Bonds under the ₱100 billion Bond Program at an interest rate of 4.2423% per annum payable quarterly, with a tenor of two years.

On 27 March 2020, BPI issued ₱33.9 billion worth of Second Tranche Bonds under the ₱100 billion Bond Program at an interest rate of 4.0500% per annum payable quarterly, with a tenor of one and a half years. This bond matured on 27 September 2021.

On 07 August 2020, BPI issued ₱21.5 billion worth of Third Tranche Bonds under the ₱100 billion Bond Program at an interest rate of 3.0500% per annum payable quarterly, with a tenor of 1.75 years.

These debt capital market issuances provided the BPI Group with more diversified sources of funding while offering clients attractive fixed income investment opportunities and are complementary to the bank's deposit-taking operations.

Total unissued amount under its ₱100 billion Bond Program is ₱2.3 billion as of the date of this Final Pricing Supplement.

Merger with BPI Family Savings Bank Inc.

The proposed merger between BPI and BFSBI, with BPI as the surviving entity (**Merger**), has been approved by the: (a) Board of Directors and stockholders of BPI at their respective meetings held on 24 February 2021 and 22 April 2021; and (b) Board of Directors and stockholders of BFSBI at their respective meetings held on 24 February 2021 and 21 April 2021. BPI and BFBSI have secured the consent of the Philippine Deposit Insurance Corporation on the proposed merger on 30 June 2021 and the approval of the Monetary Board in its Resolution dated 30 September 2021 as reflected in the letter of the Bangko Sentral ng Pilipinas dated 4 October 2021. On 21 December 2021, the SEC issued a Certificate of Filing of the Articles and Plan of Merger. Following the Plan of Merger, the merger took effect on 1 January 2022. While BPI expects the Merger to unlock value through enhanced synergy and scale of the surviving entity, there is no assurance that these will be fully realized or that the Merger will have the anticipated effects. The expected synergies may not materialize due to difficulties, delays or unexpected costs in implementing the integration of BPI and BFSBI.

Dividends

On 19 May 2021, the Board of BPI declared a regular cash dividend of ₱0.90 per share, for the first semester of 2021 on the total outstanding common shares of the capital stock of BPI, payable to all common stockholders of record as of 02 June 2021 and payable/distributable on 23 June 2021. Total dividends declared in June amounted to ₱4.1 billion.

On 17 November 2021, the Board of BPI declared a regular cash dividend of ₱0.90 per share, for the second semester of 2021 on the total outstanding common shares of the capital stock of BPI, payable to all common stockholders of record as of 02 December 2021 and payable/distributable on 24 December 2021.

Increase in Authorized Capital Stock

On 24 February 2021, the Board approved the increase in BPI's authorized capital stock from ₱49,600,000,000 divided into 4,900,000,000 common shares and 60,000,000 Preferred "A" shares, both classes of shares with a par value of ₱10 per share, to ₱50,600,000,000 divided into: 5,000,000,000 common shares with a par value of ₱10 per share and 60,000,000 Preferred "A" shares with a par value of ₱10 per share and the corresponding amendment to the Articles of Incorporation (**Amendment**). The Amendment was likewise approved by the stockholders representing at least two-thirds of the total outstanding shares of the Bank on 22 April 2021. On 08 June 2021, the BSP approved the Amendment. On 21 December 2021, the SEC approved the Amendment.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected consolidated financial information of the Bank and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this Final Pricing Supplement. The selected financial information presented below as of and for the years ended 31 December 2018, 2019, and 2020 were derived from the audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the Philippines for banks or Philippine GAAP for banks, and audited by Isla Lipana & Co., in accordance with PSA. The selected financial information presented below as of and for the three months ended 30 September 2021 and 2020 were derived from the reviewed condensed consolidated financial statements prepared in accordance with accounting principles generally accepted in the Philippines for banks or Philippine GAAP for banks and reviewed by Isla Lipana & Co. in accordance with PSRE. The selected financial information set out below does not purport to project the consolidated results of operations or financial position of the Bank for any future period or date.

SELECTED CONSOLIDATED STATEMENTS OF INCOME[1]

	For the years ended 31 December			For the nine months ended 30 September	
	2018	**2019**	**2020**	**2020**	**2021**
		(₱ millions, except for earnings per share) (audited)		**(₱ millions, except for earnings per share) (reviewed)**	
Interest income on					
Loans and advances	68,683	86,056	82,312	63,271	53,836
Investment securities	9,615	12,709	12,052	9,021	7,505
Deposits with BSP and other banks	1,173	1,722	1,944	1,456	1,262
	79,471	100,487	96,308	73,748	62,603
Interest and finance charges					
Deposits	21,255	28,874	18,986	15,833	7,494
Bills payable and other borrowed funds	2,599	6,038	5,058	3,699	3,941
	23,854	34,912	24,044	19,532	11,435
Net interest income	55,617	65,575	72,264	54,216	51,168
Impairment losses	4,719	5,562	28,000	20,472	10,251
Net interest income after impairment losses	50,898	60,013	44,264	33,744	40,917
Other income					
Fees and commissions	7,828	9,068	8,899	11,023	13,800
Income from foreign exchange trading	2,128	2,111	2,155	1,715	1,565
Income attributable to insurance operations	1,223	1,223	1,506	1,199	1,299
Trading gain on securities	719	3,882	3,310	2,594	257
Net gains (losses) on disposals of investment securities at amortized cost	-	128	4,647	4,209	1,499
Other operating income	9,105	10,275	9,142	1,251	2,034
	21,003	26,687	29,659	21,991	20,454
Other expenses					
Compensation and fringe benefits	15,201	17,369	18,005	13,572	13,785
Occupancy and equipment-related expenses	11,837	14,736	14,606	10,463	11,522
Other operating expenses	15,047	16,239	15,543	11,211	11,183
	42,085	48,344	48,154	35,246	36,490
Income before income tax	29,816	38,356	25,769	20,489	24,881
Provision for income tax					
Current	7,300	9,975	10,751	8,502	5,881
Deferred	(687)	(620)	(6,845)	(5,393)	1,357
	6,613	9,355	3,906	3,109	7,238
Net income from continuing operations	23,203	29,001	21,863	17,380	17,643
Net (loss) income from discontinued operations	126	82	(211)	(79)	-
Net income after tax	23,329	29,083	21,652	17,301	17,643
Basic and diluted earnings per share attributable to the equity holders of BPI during the year from:					
Continuing operations	5.33	6.38	4.79	3.81	3.87
Discontinued operations	0.01	0.01	(0.05)	(0.01)	-
Income (loss) attributable to equity holders of BPI arising from:					
Continuing operations	23,014	28,761	21,620	17,212	17,475
Discontinued operations	64	42	(211)	(40)	-
	23,078	28,803	21,409	17,172	17,475
Income attributable to the non-controlling interests arising from:					
Continuing operations	189	240	243	168	168

	For the years ended 31 December			For the nine months ended 30 September	
	2018	2019	2020	2020	2021
	(₱ millions, except for earnings per share) (audited)			(₱ millions, except for earnings per share) (reviewed)	
Discontinued operations…………………………	62	40	-	(39)	-
	251	280	243	129	168
Income Attributable to:					
Equity holders of the Bank....................................	23,078	28,803	21,409	17,172	17,475
Non-controlling Interest	251	280	243	129	168
Net income...	23,329	29,083	21,652	17,301	17,643

Note:

(1) 2018, 2019, 2021 and September 2020 restated with impact of discontinued operation arising from BPICTL transaction.

STATEMENTS OF CONDITION

	As of 31 December			For the nine months ended 30 September	
	2018	2019	2020	2020	2021
	(₱ millions) (audited)			(₱ millions) (reviewed)	
Resources					
Cash and other cash items	43,536	47,256	37,176	26,904	28,549
Due from BSP	225,907	207,845	223,989	238,695	257,305
Due from other banks	12,477	22,356	40,155	22,016	55,381
Interbank loans receivable and securities purchased under agreements to resell	34,323	22,570	30,251	33,190	39,725
Financial assets at fair value through profit or loss	16,721	24,105	37,210	33,218	51,298
Financial assets at fair value through other comprehensive income	37,206	53,905	130,186	171,056	127,056
Investment securities at amortized cost, net	287,571	275,105	244,653	207,975	230,231
Loans and advances, net	1,354,896	1,475,336	1,407,413	1,383,539	1,387,194
Assets held for sale, net	3,363	3,155	2,971	3,042	3,154
Bank premises, furniture, fixtures and equipment, net	16,252	23,748	18,832	22,887	16,995
Investments in subsidiaries and associates, net	5,659	6,746	7,510	5,858	6,733
Assets attributable to insurance operations	16,582	17,790	18,726	18,014	18,005
Deferred income tax assets, net	8,536	9,706	17,525	15,418	15,927
Other assets, net	22,199	15,407	16,846	21,191	22,834
Total resources	2,085,228	2,205,030	2,233,443	2,203,003	2,260,387
Liabilities and Capital Funds					
Liabilities					
Deposit liabilities	1,585,746	1,695,343	1,716,177	1,684,738	1,796,966
Derivative liabilities	3,891	2,877	5,657	5,643	4,383
Bills payable and other borrowed funds	166,901	150,837	151,947	154,506	93,740
Due to BSP and other banks	3,988	2,946	1,491	1,818	1,319
Manager's checks and demand drafts outstanding	6,931	8,299	7,108	5,945	7,077
Accrued taxes, interest and other expenses	9,057	9,865	8,902	9,074	7,766
Liabilities attributable to insurance operations	14,056	14,061	14,347	13,278	13,112
Deferred credits and other liabilities	43,120	47,768	45,857	40,910	42,149
Total liabilities	1,833,690	1,931,996	1,951,486	1,915,912	1,966,512
Capital funds attributable to the equity holders of the Bank					
Capital stock	44,961	44,999	45,045	45,033	45,131
Paid-in-surplus	74,181	74,449	74,764	74,679	74,870
Reserves	4,096	5,108	416	5,143	534
Surplus	127,459	147,460	165,509	160,594	178,838
Accumulated other comprehensive loss	(2,176)	(2,439)	(5,899)	(2,011)	(7,566)
	248,521	**269,577**	**279,835**	**283,438**	**291,807**
Non-controlling interest	**3,017**	**3,457**	**2,122**	**3,653**	**2,068**
Total capital funds	251,538	273,034	281,957	287,092	293,875
Total liabilities and capital funds	**2,085,228**	**2,205,030**	**2,233,443**	**2,203,003**	**2,260,387**

SELECTED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended 31 December			For the nine months ended 30 September	
	2018	2019	2020	2020	2021
	(₱ millions) (audited)			(₱ millions) (reviewed)	
Net cash provided by (used in) operating activities	(104,550)	33,352	89,254	76,856	99,755
Net cash provided by (used in) investing activities	(30,130)	(18,158)	(49,625)	(53,357)	14,209
Net cash provided by (used in) financing activities	125,821	(29,396)	(8,111)	(1,067)	(63,305)
Cash and cash equivalents at beginning of the year	322,129	313,270	299,068	299,068	330,586
Cash and cash equivalents at end of the period	313,270	299,068	330,586	321,500	381,245

SELECTED CONSOLIDATED FINANCIAL RATIOS AND PER SHARE DATA

	As of and for the years ended 31 December			For the nine months ended 30 September	
	2018	2019	2020	2020	2021
Return on average assets(1)	1.2%	1.4%	1.0%	1.1%	1.1%
Return on average equity(2)	10.2%	11.0%	7.7%	8.3%	8.3%
Net interest margin(3)	3.1%	3.4%	3.5%	3.5%	3.3%
Cost-to-income ratio(4)	55.5%	52.4%	47.2%	46.3%	50.9%
Gross loans to deposits(5)	86.4%	88.0%	84.2%	84.3%	79.7%
Tier 1 capital adequacy ratio(6)	15.2%	15.2%	16.2%	17.7%	16.8%
Total capital adequacy ratio(7)	16.1%	16.1%	17.1%	16.8%	17.6%
Total tangible capital funds to total tangible assets(8)	11.8%	12.3%	12.5%	12.9%	12.9%
Total gross non-performing loans (90-day) to total gross loans(9)	1.9%	1.7%	2.7%	3.0%	2.7%
Allowances for credit losses to total gross loans(10)	1.7%	1.7%	3.1%	3.0%	3.6%
Allowances for credit losses to total gross non-performing loans (90-day)(11)	88.3%	102.1%	115.2%	100.4%	130.7%
Specific provisions to gross loans	1.7%	1.7%	3.2%	3.1%	3.7%
Dividend payout ratio(12)	36.2%	35.2%	28.2%	10.5%	14.2%
Dividend per Share (₱)	₱1.80	₱1.80	₱1.80	₱0.90	₱0.90
Basic and diluted earnings per share attributable to the equity holders of BPI during the year from(13)					
Continuing operations (₱)	₱5.33	₱6.38	₱4.79	₱3.81	₱3.87
Discontinued operations (₱)	₱0.01	₱0.01	₱(0.05)	₱(0.01)	-

Notes:

(1) Net income divided by average total assets for the period indicated. Average total assets is based on the monthly average balance of total assets for the years ended 31 December 2018, 2019 and 2020, and for the nine months ended 30 September 2021 and 2020.

(2) Net income divided by average total equity for the period indicated. Average total equity is based on the monthly average balance of equity for the years ended 31 December 2018, 2019 and 2020, and for the nine months ended 30 September 2021 and 2020

(3) Net interest income divided by average interest-earning assets.

(4) Total operating expenses (net of provision for credit and impairment losses) divided by net interest and other income.

(5) Total receivable from customers divided by total deposit liabilities.

(6) Net Tier 1 capital divided by total risk weighted assets (under Basel III).

(7) Total qualifying capital less deductions divided by total risk weighted assets (under Basel III).

(8) Total Equity, net of deferred charges divided by total assets, net of deferred charges.

(9) Total gross non-performing loans (90-day NPLs) divided by total receivable from customers net of unearned interest and discount. Data as of 31 December 2019 is based on BSP Circular No. 941.

(10) Total allowance for credit losses on receivable from customers divided by receivable from customers.

(11) Total allowance for credit losses on receivable from customers divided by total gross 90-day NPLs.

(12) The ratios were computed as total dividend declared during the year divided by prior year's net income.

(13) Net income divided by total weighted average number of shares outstanding.

INVESTMENT CONSIDERATIONS

This section updates and discusses additional risks to those stated in the Offering Circular. The following section is qualified in its entirety by, and should be read in conjunction with, the more detailed information found in the Offering Circular.

Risks Relating to the Bank and its Business

BPI may not be successful in implementing new business strategies or penetrating new markets.

As part of its strategy, BPI aims to lead in digital banking by leveraging its early investments in digitalizing its systems. As clients adopt digitalization, BPI expects to rationalize its branches through re-location, consolidation or co-location. The remaining branches will undergo physical transformation and will be segmented depending on the client preferences in the area. At the same time, BPI aims to become the main operating bank of its corporate clients, capitalizing on its robust transaction platforms and optimizing funding cost. BPI will also continue to reposition its loan book by increasing exposure to SME and consumer loans. As part of its thrust for sustainable banking, BPI launched its sustainability agenda and made significant commitments i.e. become the most financially inclusive bank through BPI Direct BanKo, no additional commitments to finance greenfield coal power generation projects and support the Task Force on Climate-related Financial Disclosures.

While this strategy is expected to diversify BPI's revenue sources, it may likewise expose it to a number of risks and challenges including, among others, the following:

- new and expanded business activities may have less growth or profit potential than BPI anticipates, and there can be no assurance that new business activities will become profitable at the level BPI desires or at all;
- BPI's competitors may have substantially greater experience and resources for the new and expanded business activities; and
- economic conditions, such as rising interest rates or inflation and regulatory changes, such as changes in banking and tax regulations, could hinder BPI's expansion.

In addition, new business endeavors may require knowledge and expertise which differ from those used in the current business operations of BPI, including different management skills, risk management procedures, guidelines and systems, credit risk evaluation, monitoring and recovery procedures. BPI may not be successful in developing such knowledge and expertise. Furthermore, managing such growth and expansion requires significant managerial and operational resources, which BPI may not be able to procure on a timely basis or at all. Finally, BPI may not be successful in its aim to diversify its coal and non-renewable energy projects due to the Philippines' deficit in energy supply versus demand. BPI's inability to implement its business strategy and adequately manage the related risks could have a material adverse effect on the business, financial condition and results of operations of BPI.

Inability to adapt to technology shifts and address changing consumer demand may negatively impact BPI's competitiveness and customer experience.

The prevalence of smart phones and other connectivity devices, and mobile data applications has increased the number of platforms providing online payment solutions, electronic money and wallets, and other similar services and products. The emergence of such web- and app-based products and services has significantly increased competition with those traditionally provided by banks, such as BPI. The quarantine and other movement restrictions imposed in connection with the COVID-19 pandemic also serve to increase demand for such digital and online solutions.

Banks compete with expanding financial technology (**fintech**) solutions covering (i) mobile payment or e-wallet applications such as but not limited to GCash and PayMaya and (ii) peer-to-peer lending platforms, among others. Moreover, to date, the BSP has granted six (6) digital bank licenses: (i) Overseas Filipino Bank, (ii) Tonik Digital Bank, Inc., (iii) UNObank, (iv) UnionDigital Bank, (v) GoTyme Bank, and (vi) Maya Bank. These are in addition to banks offering no-branch banking services through their respective mobile apps such as CIMB Bank Philippines and ING Bank N.V. Manila which both provide all-online retail banking services despite having existing commercial and universal banking licenses, respectively.

Any inability on the part of BPI to recognize and quickly respond to changes in customer preferences by upgrading its existing infrastructure and systems may impact its competitiveness in the marketplace, which would in turn negatively impact its business, results of operations and financial condition. While BPI invests substantially in technological upgrades and aims to remain up to date with banking technology in the Philippines, there are no significant barriers that prevent its competitors from adopting more advanced technology for their products and services. Accordingly, there can be no assurance that it will be able to maintain its technological competitiveness with its competitors. Furthermore, BPI may need to incur a significant amount of research and development and/or capital expenditures to maintain its technological competitiveness. Failure to maintain its technological competitiveness or its brand image may have a material adverse impact on its fee-based revenue and its ability to attract new deposits from affluent retail and corporate customers, which in turn may lead to an increase in costs of funding and loss of business and result in a material adverse effect on its business, financial condition and results of operations.

BPI has some concentration of loans to certain customers and to certain industries and if a substantial portion of these loans were to become non-performing, the quality of its loan portfolio could be adversely affected.

As of 30 September 2021, BPI's total exposure to borrowers was ₱1.4 trillion. The Bank monitors its large exposures to individual borrowers and borrower groups as the BSP generally prohibits any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth. BPI is committed to ensure strict compliance with laws, regulations and reporting requirements relating to single borrower limits. Although BPI continues to adopt risk controls and diversification strategies to minimize risk concentrations, financial difficulties in these industries could increase the level of non-performing assets and restructured assets, and adversely affect BPI's business, its financial condition and results of operations.

BPI may face increasing levels of NPLs, provisions for impairment losses and delinquencies in its loan portfolio, which may adversely affect BPI's business, financial condition, results of operations, and capital adequacy.

BPI's results of operations have, and continue to be, affected by the level of its NPLs. BPI's total gross NPLs remained manageable and below the industry average. BPI plans to continue to expand its microfinance, **SME** and consumer loan operations, including credit card services. Such expansion plans will increase BPI's exposure to microfinance, SME and consumer debt, and volatile economic conditions in the Philippines may adversely affect the future ability of BPI's borrowers, including microfinance, SME borrowers and credit card holders, to meet their obligations under their indebtedness and, as a result, BPI may continue to experience increasing levels of NPLs and provisions for impairment losses in the future.

Volatile economic conditions in the Philippines and overseas, including volatile exchange and interest rates, may adversely affect many of BPI's customers, causing uncertainty regarding their ability to fulfill obligations under BPI's loans and significantly increasing BPI's exposure to credit risk. These and other factors could result in an increased number of NPLs and delinquencies in BPI's credit card portfolio in the future. Any significant increase in BPI's NPLs or delinquencies in BPI's credit card portfolio would have a material adverse effect on its business, financial condition, results of operations and capital adequacy.

As a result of the COVID-19 pandemic, BPI has seen an increase in the level of NPL attributable to the temporary and/or 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 this year and may be on a steady increase up to early to mid-2022.

BPI may be unable to recover the assessed value of its collateral when its borrowers default on their obligations, which may expose BPI to significant losses.

A portion of BPI's loans are secured and the collateral on these secured loans include real property. There can be no assurance that the collateral securing any particular loan will protect BPI from suffering a partial or complete loss if the loan becomes non-performing. The recorded values of BPI's collateral may not accurately reflect its liquidation value, which is the maximum amount BPI is likely to recover from a sale of collateral, less expenses of such sale. There can be no assurance that the realized value of the collateral would be adequate to cover BPI's loans.

In addition, some of the valuations in respect of BPI's collateral may also be out of date or may not accurately reflect the value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, there may be significant difficulties in disposing of such collateral at a reasonable price. Any decline in the value of the collateral securing BPI's loans, including with respect to any future collateral taken by BPI, would mean that its provisions for credit losses may be inadequate and BPI may need to increase such provisions. Any increase in BPI's provisions for credit losses could adversely affect its business, its financial condition, results of operations and capital adequacy ratio (**CAR**).

In addition, BPI may not be able to recover in full the value of any collateral or enforce any guarantee due, in part, to difficulties and delays involved in enforcing such obligations through the Philippine legal system. To foreclose on collateral or enforce a guarantee, banks in the Philippines are required to follow certain procedures specified by Philippine law. These procedures are subject to administrative and bankruptcy law requirements which may be more burdensome than in certain other jurisdictions. The resulting delays can last several years and lead to the deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be insured. These factors have exposed, and may continue to expose, BPI to legal liability while in possession of the collateral. These difficulties may significantly reduce BPI's ability to realize the value of its collateral and therefore the effectiveness of taking security for the loans it makes. BPI initially carries the value of the foreclosed properties at the lower of loan exposure or fair value of the properties at the time of foreclosure. Subsequently, the foreclosed properties are carried at the lower of amount initially recognized or fair value less cost to sell. While BPI, at each balance sheet date, provides for impairment losses on its foreclosed properties in accordance with PFRS, it may incur further expenses to maintain such properties and to prevent their deterioration. In realizing cash value for such properties, BPI may incur further expenses such as legal fees and taxes associated with such realization. There can be no assurance that BPI will be able to realize the full value, or any value, of any collateral on its loans.

BPI's provisioning policies with respect to NPLs require significant subjective determinations which may increase the variation of application of such policies.

BSP regulations require that Philippine banks classify NPLs based on four different categories corresponding to levels of risk: loans especially mentioned, substandard, doubtful and loss. Generally, classification depends on a combination of a number of qualitative as well as quantitative factors such as the number of months payment is in arrear, the type of loan, the terms of the loan, and the level of collateral coverage. These requirements have in the past, and may in the future, be subject to change by the BSP. Periodic examination by the BSP of these classifications may also result in changes being made by BPI to such classifications and to the factors relevant thereto.

For financial reporting purposes, BPI assesses at each reporting date whether there is a significant increase in credit risk on the loan or group of loans. The level of provisions currently recognized by BPI in respect of its secured loan portfolio depends largely on the estimated value of the collateral coverage for the portfolio, as well as BPI's evaluation of the creditworthiness of the borrower and the risk classification of a loan. If BPI's evaluations or determinations are inaccurate, the level of BPI's provisions may not be adequate to cover actual losses resulting from its NPL portfolio. BPI may also have to increase its level of provisions if there is any deterioration in the overall credit quality of BPI's existing loan portfolio, including the value of the underlying collateral.

In addition, the level of loan loss provisions which BPI recognizes may increase significantly in the future due to the introduction of new accounting standards or a turn in the credit cycle.

BPI's failure to manage risks associated with its information and technology systems could adversely affect its business.

BPI is subject to risks relating to its information and technology systems and processes. The hardware and software used by BPI in its information technology is vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses or the interruption or loss of support services from third parties such as internet service providers and telephone companies. For example, in June 2017, an error by one of BPI's system programmers resulted in double-posting of transactions, which affected some 1.5 million of its customers. In addition, due to system upgrade, BPI's systems were unavailable or limited from 07 April 2019 to 10 April 2019. The WFH arrangements necessitated by the quarantine measures imposed in response to the COVID pandemic heightened the cybersecurity risk faced by BPI.

Although the incidents above did not result in material loss or expense to BPI, there can be no assurance that future similar incidents will not result in material adverse losses or expenses to BPI. Any disruption, outage, delay or other difficulties experienced by any of these information and technology systems could result in delays, disruptions, losses or errors that may result in customer suits, loss of income, regulatory investigations, penalties and fines and decreased consumer confidence in BPI. These may, in turn, adversely affect BPI's business, financial condition and results of operations.

BPI also seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by BPI's increased use of the internet. Computer break-ins and security breaches could affect the security of information stored in and transmitted through these computer systems and network infrastructure. BPI employs security systems, including firewalls and password encryption, designed to minimize the risk of security breaches and maintains operational procedures to prevent break-ins, damage and failures. The potential for fraud and security problems is likely to persist and there can be no assurance that these security measures will be adequate or successful. The costs of maintaining such security measures may also increase substantially. Failure in security measures could have a material adverse effect on BPI's business, reputation, financial condition and results of operations.

BPI relies on certain key personnel and the loss of any such key personnel or the inability to attract and retain them may negatively affect the business.

BPI's success depends upon, among other factors, the retention of its key management, senior executives and upon its ability to attract and retain other highly capable individuals. The loss of some of BPI's key management and senior executives, or an inability to attract or retain other key individuals, could materially and adversely affect BPI's business, financial condition and results of operations.

Increased enforcement by the BSP related to priority lending for the agrarian reform and agricultural sectors, as well as lending to micro-, small-and-medium-sized enterprises, could adversely affect BPI's business, financial condition and results of operations.

In support of government initiatives to strengthen rural development, Philippine banks, under Republic Act No. 10000 or the Agri-Agra Credit Act of 2009, are required to extend certain loan amounts, equivalent to a certain percentage of its total loan portfolio to agrarian beneficiaries and the agricultural sectors of the Philippines. Failure to meet the specified level of loans may result in fines being assessed against a non-compliant bank. These fines are calculated based on the relevant rate multiplied by the prescribed Agri-Agra loan amount shortfall. Because BPI is unable to generate sufficient exposure to the Agri-Agra sectors that meet its credit and risk management standards, BPI has paid fines in the past and may continue to do so in the future. There can be no assurance that the Government will not increase its penalties for non-compliance or force banks to lend in accordance with the policy in the future. If the Government substantially increases the penalty for non-compliance or BPI is forced to extend loans to the Agri-Agra sectors that are inconsistent with BPI's credit and risk management policies, its business, financial condition and results of operations could be adversely affected.

BPI is subject to credit, market and liquidity risk which may have an adverse effect on its credit ratings and its cost of funds.

To the extent any of the instruments and strategies BPI uses to manage its exposure to market or credit risk is not effective, BPI may not be able to mitigate effectively its risk exposures, in particular to market environments or against particular types of risk. BPI's balance sheet growth will be dependent upon economic conditions, as well as upon its determination to securities, sell, purchase or syndicate particular loans or loan portfolios. BPI's trading revenues and interest rate risk exposure are dependent upon its ability to properly identify and mark to market the changes in the value of financial instruments caused by changes in market prices or rates. BPI's earnings are dependent upon the effectiveness of its management of migrations in credit quality and risk concentrations, the accuracy of its valuation models and its critical accounting estimates and the adequacy of its allowances for credit losses. To the extent its assessments, assumptions or estimates prove inaccurate or not predictive of actual results, BPI could suffer higher than anticipated losses. The successful management of credit, market and operational risk is an important consideration in managing its liquidity risk because it affects the evaluation of its credit ratings by rating agencies. A failure by BPI to effectively manage its credit, market and liquidity risk could have a negative effect on its business, financial condition and results of operations.

A downgrade of BPI's credit rating could have a negative effect on its business, financial condition and results of operations.

As of 30 September 2021, BPI has a local long-term bank deposit rating of "Baa2" from Moody's, a long-term local currency issuer default rating of "BBB-" from Fitch, a long-term issuer credit rating of "BBB+" from S&P and "BBB" rating from Capital Intelligence. In the event of a downgrade of BPI by one or more credit rating agencies, BPI may have to accept terms that are not as favourable in its transactions with counterparties or may be unable to enter into certain transactions. This could have a negative impact on BPI's treasury operations and also adversely affect its financial condition and results of operations. Rating agencies may reduce or indicate their intention to downgrade the ratings at any time. The rating agencies can also decide to withdraw their ratings altogether, which may have the same effect as a downgrade of ratings. Any downgrade in BPI's ratings (or withdrawal of ratings) may increase its borrowing costs, limit its access to capital markets and adversely affect its ability to sell or market its products, engage in business transactions, particularly longer-term and derivatives transactions, or retain its customers. This, in turn, could reduce BPI's liquidity and negatively impact its operating results and financial condition.

BPI's business, reputation and prospects may be adversely affected if BPI is not able to detect and prevent fraud or other misconduct committed by BPI's employees or outsiders on a timely basis.

BPI is exposed to the risk that fraud and other misconduct committed by employees or outsiders could occur. Such incidences may adversely affect banks and financial institutions more significantly than companies in other industries due to the large amounts of cash that flow through their systems. Any occurrence of such fraudulent events may damage the reputation of BPI and may adversely affect its business, financial condition, results of operations and prospects. In addition, failure on the part of BPI to prevent such fraudulent actions may result in administrative or other regulatory sanctions by the BSP or other government agencies, which may be in the form of suspension or other limitations placed on BPI's banking and other business activities. Although BPI has in place certain internal procedures to prevent and detect fraudulent activities, these may be insufficient to prevent such occurrences from transpiring. There can be no assurance that BPI will be able to avoid incidents of fraud in the course of its business.

BPI is involved in litigation, which could result in financial losses or harm its business.

BPI is and may in the future be, implicated in lawsuits on an ongoing basis. Litigation could result in substantial costs to, and a diversion of effort by, BPI and/or subject BPI to significant liabilities to third parties. Due to the robust legal risks management policies and practices, we see no possibility that by the type and nature of the litigation items may results to material harm on BPI's business, reputation or standing in the market place despite the fact that in some cases, there is no assurance that BPI will be able to recover any losses incurred from third parties, regardless of whether BPI is at fault. Furthermore, while there can be no assurance that losses relating to litigation will not be incurred beyond the limits, or outside the coverage, of BPI's insurance, there is strong indications that that any such losses would not have a material adverse effect on the results of BPI's business, financial condition or results of operation. As of this date provisions made for litigation related losses will be sufficient to cover BPI's ultimate loss or expenditure based on the existing and projected value of claims by prospective adverse parties.

BPI may not realize the anticipated synergies from the merger with BFSBI.

On 20 January 2021, the respective boards of directors of BPI and BPI Family Savings Bank approved the Merger, where BPI will be the surviving corporation. The Merger was subsequently approved by stockholders of BPI on 22 April 2021 and of BPI Family Savings Bank on 21 April 2021.

Subsequently, the Philippine Competition Commission (**PCC**), in its letter dated 25 May 2021, indicated that the BPI and BFSBI merger is exempt from compulsory notification. Moreover, the Philippine Deposit Insurance Corporation, in its letter dated 06 July 2021, has also granted its consent to the proposed merger of BPI and BFSBI, subject to certain conditions. The BSP, in its letter to BPI dated 04 October 2021, indicated that the Monetary Board of BSP approved the proposed merger on 30 September 2021. On 21 December 2021, the SEC approved the merger and issues a Certificate of Filing of the Articles and Plan of Merger, effective 1 January 2022.

While BPI expects the Merger to unlock value through enhanced synergy and scale of the surviving entity, there is no assurance that these will be fully realized or that the Merger will have the anticipated effects. The expected synergies may not materialize due to difficulties, delays or unexpected costs in implementing the integration of BPI and BFSBI.

The Philippine banking industry may face another downturn, which could materially and adversely affect BPI.

The Philippine banking industry may face significant financial and operating challenges. These challenges may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank margins, low loan growth and potential or actual under-capitalization of the banking system. Disruptions in the Philippine financial sector, or general economic conditions in the Philippines may cause the Philippine banking industry in general, and BPI in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges.

In 2020, the Philippine banking industry faced a substantial increase in non-performing loans as the COVID-19 pandemic disrupted business activities and increased the numbers of unemployed. Industry NPL ratio has increased from 2.08% in 31 December 2019 to 4.58% in 30 September 2021. Meanwhile, Philippine banks' NPL coverage ratio decreased from 92.59% in 31 December 2019 to 92.98% in 31 December 2020. NPL coverage ratio decreased to 84.36% as of 30 September 2021.

Banks were forced to increase loan loss provisions and allowances to cover for potential credit losses, which negatively affected net income. Delays in the resumption of economic activities due to recurring mobility restrictions increases the prospects of more deterioration in the banking system's asset quality. Nonetheless, the Philippine Banking industry may withstand the risks posed by COVID-19 due to low interest rates, strong capital position, and adequate liquidity buffers.

BPI may have to comply with strict rules and guidelines issued by banking regulatory authorities in the Philippines, including the BSP, the SEC, the NPC, the PSE, the BIR and international bodies, including the FATF.

BPI's banking interests are regulated and supervised principally by the BSP, to which BPI has reporting obligations. BPI is also subject to banking, corporate, taxation, data privacy laws and other relevant laws and regulations in effect in the Philippines, administered by agencies such as the BIR, the PSEC, The Philippine Stock Exchange, Inc. (the **PSE**), the National Privacy Commission (the **NPC**) and the Anti-Money Laundering Council (**AMLC**). BPI is also subject to recommendations and pronouncements of international bodies such as the Financial Action Task Force (**FATF**) which have been adopted, incorporated, or referred to by the BSP in its regulatory issuances.

In recent years, existing BSP and BIR rules have been modified, new regulations and rules have been enacted and reforms have been implemented by the BSP and the BIR which are intended to provide tighter control and added transparency in the Philippine banking sector. Rules governing banks' capital adequacy and reserve requirements, ceilings on loans to subsidiaries and affiliates, as well as limits on the amount of loans, credit accommodations and guarantees to a single borrower have also evolved over the years. Guidelines on the monitoring and reporting of suspected money laundering activities were incorporated into the BSP Manual. Institutions that are subject to the Anti-Money Laundering Act, as amended (**AMLA**) are required to establish and record the identities of their clients based on official documents. In addition, under the AMLA regulations, all records of customer identification and transaction documents are required to be maintained and stored for a minimum of five years from the date of a transaction. Records of closed accounts must also be kept for at least five years after their closure. The AMLA regulations also require covered institutions to report covered and suspicious transactions as defined under the relevant law.

The BSP has also ordered universal, commercial and thrift banks to conduct real estate stress tests to determine whether their capital is sufficient to absorb a severe shock. The Real Estate Stress Test Limit (**REST Limit**) combines a macro-prudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. Should a bank fail to comply with the prescribed REST Limits, it shall be directed to explain why its exposures do not warrant immediate remedial action. If the explanation is deemed insufficient, the bank shall be required to submit an action plan to meet the REST Limits within a reasonable time frame. If a bank fails to submit an action plan or persistently breaches the REST Limits due to non-compliance with the commitments in its submitted action plan, it may be considered to be engaging in unsafe or unsound banking which may subject it to appropriate sanctions.

In June 2016, the BSP implemented the interest rate corridor (**IRC**) which effectively narrowed the band among the BSP's key policy rates. The pricing benchmark, which used to be the "special deposit account" prior to the implementation of the IRC, was replaced by the "overnight deposit facility" with a current rate of 4.25%, and forms the lower bound of the IRC. Meanwhile, the rate for the "overnight lending facility", which replaced the previous repurchase facility, and forms the upper bound of the IRC, is currently at 5.25%. The BSP likewise introduced the "term deposit facility" to serve as the main tool for absorbing liquidity through weekly term deposit facility auctions, the frequency for which may be changed depending on the BSP's liquidity forecasts. According to the BSP, the changes from IRC are purely operational in nature to allow it to conduct monetary policy effectively.

Additionally, the BSP reduced the rates of required reserves against deposit and deposit substitute liabilities for universal and commercial banks commencing on reserve week 3 April 2020, (and reiterated in Circular No. 1092 for reserve week 31 July 2020), as follows: (a) 12% against demand deposits, savings deposits (excluding basic deposit accounts), time deposits and deposit substitutes, negotiable certificates of time deposits (**CTDs**), long-term non-negotiable tax-exempt CTDs, Peso deposits lodged under due to foreign banks, Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank), negotiable order of withdrawal (**NOW**) accounts; (b) 0% against deposit substitutes evidenced by repurchase agreements; (c) 4% against long-term negotiable certificates of time deposits (**LTNCDs**); (d) 3% against Fourth Tranche Bonds; and (e) 0% against basic deposit accounts as defined under Section X222 of the Manuel of Regulations for Banks and for interbank call loan transactions (**IBCL**) (Sec. 315).

The BIR has also promulgated rules on the submission of an alphabetical list of portfolio investors receiving income payments and dividends. The BIR requires all withholding agents to submit such list of payees on income payments subject to creditable and withholding taxes and prohibit the lumping into a single amount and account of various income payments and taxes withheld. The Supreme Court, however, issued a temporary restraining order against the said BIR rule on 9 September 2014 insofar as they prohibit the naming of an entity called the Philippine Central Depository (**PCD**) Nominee, or any other securities intermediaries representing the beneficial owner, as the payee for dividend payments made by listed companies.

BPI's failure to comply with current or future regulations and guidelines issued by regulatory authorities in the Philippines or significant compliance and monitoring costs resulting from current or future regulations and guidelines could have a material adverse effect on BPI's business, financial condition and results of operations. In addition, as a result of a failure to comply with any current or future regulations and guidelines, BPI may become subject to sanctions, warning or reprimand and incur monetary penalties.

The implementation of Basel III in the Philippines may impose certain restrictions and stricter capital requirements affecting BPI.

On 04 August 2006, the BSP issued Circular No. 538, which contained the implementing guidelines on the revised risk-based capital adequacy framework for the Philippine banking system, in conformity with the recommendations of the International Convergence of Capital Measurement and Capital Standards (Basel II) set by the Basel Committee on Banking Supervision (Basel Committee). The circular, which took effect on 01 July 2007, maintained the minimum CAR at 10.0% and provided the approaches that may be used in computing the regulatory capital requirements for credit, market, and operational risks.

In December 2010, the Basel Committee issued an update to the Basel Accords, known as Basel III that modified the structure of regulatory capital. The Basel III regulations included tighter definitions of qualifying capital, and introduced frameworks for capital conservation buffer, countercyclical buffer, systemically important financial institutions, leverage ratio, and short-term and medium-term quantitative liquidity ratios.

On 15 January 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which took effect in January 2014. Its highlights include:

- Adopting a new categorization of the capital base;
- Keeping minimum CAR at 10.0% and prescribing:
    - A minimum Common Equity Tier 1 (**CET1**) ratio of 6.0%;
    - A minimum Tier 1 ratio of 7.5%; and
    - A capital conservation buffer of 2.5%
- Rendering ineligible existing capital instruments that do not meet eligibility criteria for capital instruments under the revised capital framework; and

- Subjecting covered banks and quasi-banks to the enhanced disclosure requirements pertaining to regulatory capital

On 29 October 2014, the BSP issued Circular No. 856, *Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks (**D-SIB**s) under Basel III*, with an amendment issued via Circular No. 1051 on 27 September 2019, to address systemic risk and interconnectedness by identifying banks which are deemed systemically important within the Philippine banking industry. Banks identified as D-SIBs, will be required to have higher loss absorbency capabilities, in addition to minimum CET1 capital and capital conservation buffer requirements. Identified D-SIBs will need to put up an additional 1.5% to 2.5% of common equity Tier 1 capital, depending on their classification.

On 09 June 2015, the BSP issued Circular No. 881, *Implementing Guidelines on the Basel III leverage Ratio Framework*, requiring covered institutions to maintain a leverage ratio not lower than 5.0%. The leverage ratio, expressed as the proportion of Tier 1 capital against exposure measure, serves as a backstop to the CAR.

On 10 March 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio and Disclosure Standards*, requiring banks to hold a sufficient level of high-quality liquid assets (HQLA) to enable them to withstand a 30-day liquidity stress scenario. On 06 June 2018, the BSP issued Circular No. 1007, *Implementation of Basel III Framework on Liquidity Standards – Net Stable Funding Ratio*, requiring that banks' assets and activities be structurally funded with long-term and more stable funding sources. Although these measures are aimed at strengthening the ability of banks to withstand liquidity stress and promote resilience of the banking sector, compliance with these ratios may also further competition among banks for deposits as well as high quality liquid assets.

On 06 December 2018, the BSP issued Circular No. 1024, *Philippine Adoption of the Basel III Countercyclical Buffer*, imposing a countercyclical buffer (CCyB) of 0% subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant, but not to exceed 2.5%. Any increase in the CCyB rate shall be effective 12 months after its announcement, while decreases shall be effective immediately.

On 04 May 2020, BSP issued Memorandum No. M-2020-039 allowing universal and commercial banks, and their subsidiary banks and quasi-banks which have built their capital conservation buffer and LCR buffer to utilize such during the state of health emergency. A covered bank which draws down its 2.5% minimum capital conservation buffer will not be considered in breach of the capital adequacy framework. A covered bank which utilizes its capital conservation buffer is restricted from making distributions in the form of dividends, share buybacks, discretionary payments on other Tier 1 capital instruments, or discretionary bonus payments to staff. A covered bank may draw on its stock of liquid assets to meet liquidity demand even if may cause to maintain an LCR that is below the 100% minimum requirement. However, a covered bank that has recorded a shortfall in the stock of its High-Quality Liquid Assets for three banking days within any two-week rolling calendar period, causing it to fall below the 100% must notify the BSP on the banking day immediately following the occurrence of the third liquidity shortfall.

They will be given a reasonable time to restore their Basel III capital conservation and liquidity buffers after the COVID-19 pandemic.

As of 30 September 2021, BPI had CAR of 17.64% and Tier 1 ratio of 16.76%. Compliance with these ratios may further increase competition among banks for deposits as well as high quality liquid assets.

Although intended to strengthen banks' capital positions and avoid potential asset bubbles, the foregoing BSP and Monetary Board regulations will add pressure to local banks to meet the additional capital requirements, which may effectively create greater competition among local banks for deposits and temper bank lending. Stricter lending and prudential regulations may reduce the lending appetite of BPI or cause BPI to alter its credit risk management systems, which may adversely affect BPI's business, financial condition, and results of operations.

Compliance to regulatory requirements may impact BPI's ability to grow its business and may even require BPI to withdraw from or to curtail some of its current business operations, which could materially and adversely affect BPI's business, financial condition, and results of operations. Unless BPI is able to access the necessary amount of additional capital, any incremental increase in the capital or liquidity requirement due to the implementation of Basel III may result in BSP-imposed monetary and non-monetary sanctions, including prohibition on the declaration of dividends. While BPI has in place measures to ensure compliance to the requirements of Basel III as implemented by the BSP, there can also be no assurance that BPI will be able to raise adequate additional capital in the future at all or on terms favourable to it.

Developing regulations in relation to climate risk and other environmental and social factors may restrict BPI's growth and impose additional obligations on the Bank's operations

The Bank is subject to environmental and social risks (e.g., physical and transition risks) which may have adverse financial and/or non-financial consequences impacting the Bank's business model and overall financial condition.

In April 2020, the BSP issued Circular 1085 - Sustainable Finance Framework to implement the sustainable finance policy framework, integrating sustainability principles, including those covering environmental and social risk areas, into the corporate governance and risk management frameworks and strategic objectives and operations of banks such as BPI in the Philippines. Under these regulations, banks are required, among others, to institutionalize the adoption of sustainability principles into the bank's risk management framework, consider sustainability implications of the bank's activities and adopt an environmental and social risk management system (**ESRMS**) commensurate to the bank's size, nature and complexity of operations, aligned with internationally recognized principles, standards and global practices. The BSP requires banks to specifically adopt an ESRMS that meets their established criteria and is subject to audit and compliance review and to disclose information on sustainable finance in their annual report. Banks are required to be fully compliant with these regulations within three years of the Circular 1085's effective date.

SUMMARY OF THE OFFER

Issuer	:	Bank of the Philippine Islands (**BPI**).
Issue	:	Peso-denominated bonds under the ₱100 Billion Bond Program
Joint Lead Arrangers	:	BPI Capital Corporation (**BPI Capital**). The Hongkong and Shanghai Banking Corporation Limited (**HSBC**).
Sole Selling Agent	:	BPI Capital.
Participating Selling Agent	:	HSBC.
Trustee	:	Development Bank of the Philippines – Trust Banking Group (**DBP**).
Registrar, Depository and Paying Agent	:	Philippine Depository & Trust Corp. (**PDTC**).
Market Maker	:	Rizal Commercial Banking Corporation (**RCBC**).
Instrument	:	Fixed rate bonds, constituting the direct, unconditional, unsecured and unsubordinated obligations of BPI.
Issue Size	:	₱27,000,000,000
Use of Proceeds	:	For general corporate purposes including refinancing
Issue Price	:	At par (or 100% of face value)
Manner of Distribution	:	Public offering in the domestic market.
Procedure for Distribution, Sale and Registration of the Fourth Tranche Bonds	:	The Issuer shall avail itself of the e-Securities Issue Portal of the Philippine Dealing System Holdings Corp. (**e-SIP**) and register the issuance of the Fourth Tranche Bonds, and the arrangers, underwriters, selling agents, and other stakeholders (**Users**), to the e-SIP facility, in order to allow access and submission of documents and other requirements for the Offer through the e-SIP facility, in lieu of the physical submission thereof to PDTC, Philippine Dealing & Exchange Corp. (**PDEx**) and other operating subsidiaries of the Philippine Dealing System and Holdings Corp. The Users (which may include the Joint Lead Arrangers, Selling Agents, and their clients) agree to accede to the Terms of Use in a manner and form prescribed by PDTC.
Offer Period	:	06 January 2022 to 14 January 2022, or such other date/s as may be agreed upon by the Issuer and the Joint Lead Arrangers.
Issue Date	:	31 January 2022, or such other date as may be agreed upon by the Issuer and the Joint Lead Arrangers.
Maturity Date	:	31 January 2024, or 2 years from Issue Date
Interest Rate	:	2.8068% p.a.
Interest Rate Setting Date	:	05 January 2022, or such other date as may be agreed upon by the Issuer and the Joint Lead Arrangers.
Interest Period and Interest Payment Date	:	Interest shall be payable every quarter in arrear on 31 January, 30 April, 31 July, 31 October, computed based on the outstanding balance of the Fourth Tranche Bonds. Interest on the Fourth Tranche Bonds shall be calculated on a 30/360 basis. If any Interest Payment Date would otherwise fall on a day that is not a Business Day, payments will be made on the subsequent Business Day without adjustment of the amount due.
Manner of Payment of Interest and Principal	:	On each Interest Payment Date and Maturity Date (as applicable), the Issuer shall make available cleared funds to the Paying Agent for payment

to the relevant Bondholder as shown in the Register of Bondholders to be maintained by the Registrar.

The Payment Account shall be opened in the following names, "***PDTC as Paying Agent of BPI BONDS DUE 2024 FAO Bondholders***". All the disbursements for interest and principal payments to be effected out of the said Payment Account shall be signed by the duly designated authorized signatories of the Paying Agent.

Form and Denomination	:	The Fourth Tranche Bonds shall be issued in scripless form. Legal title to the Fourth Tranche Bonds shall be shown in the Register of Bondholders to be maintained by the designated registrar for the Fourth Tranche Bonds. A Master Certificate of Indebtedness representing the Fourth Tranche Bonds shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders. The Fourth Tranche Bonds will be offered and sold in minimum principal amounts of ₱1,000,000.00 and in integral multiples of ₱100,000.00 in excess thereof.
Prohibited Holder	:	Means persons and entities which are prohibited from purchasing and/or holding the Fourth Tranche Bonds of BPI pursuant to regulations governing the Bank, specifically: (a) the Issuer, including its related parties such as its subsidiaries, affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the Issuer exerts direct/indirect control over; the Issuer's DOSRI (as defined under the MORB) and their close family members, and corresponding persons in affiliated companies; and such other person or entity whose interests may pose potential conflict with the Issuer's interest or who are identified as related parties pursuant to Section 131 of the MORB in relation with BSP Circular No. 1062, except (i) the Issuer's trust department or related trust entities, or (ii) an underwriter or arranger that is an Issuer's related party, provided that the holding of the Fourth Tranche Bonds is part of the underwriting agreement, and such underwriter or arranger has complied with the requirements of Governing Regulations; or (b) such persons who are otherwise not qualified under the Governing Regulations including any other person whose acquisition, holding or transfer of the Fourth Tranche Bonds would violate any applicable law or regulation, including but not limited to the rules of the PDEx, BSP, AMLC, or other government regulation in any relevant jurisdiction; or (c) persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time, which include: (a) a U.S. citizen (including a dual citizen who may have another citizenship besides having a U.S citizenship); (b) a U.S. resident alien for tax purposes, which includes a person who has substantial presence in the U.S. ("substantial presence" is defined as more than 31 days in the current calendar year or a total of 183 days over the previous three years from the current tax year); (c) a U.S. partnership, U.S. corporation, or U.S. entity; (d) a U.S. estate; (e) a U.S. trust if a court within the United States is able to exercise primary supervision over the administration of the trust, or one or more U.S. persons have the authority to control all substantial decisions of the trust; or (f) any other person that is not a non-US person; or (d) Persons classified as a Restricted Parties.

For purposes of the definition of Prohibited Holders, a "**Subsidiary**" means, a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held, with power to vote, by the Bank. An "**Affiliate**" means, at any particular time, an entity linked directly or indirectly to the Bank by means of: (1) ownership, control, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa; (2) interlocking directorship or officership, where the director or officer concerned owns, controls, or has the power to vote, at least twenty percent (20%) of the outstanding voting stock of the entity; (3) common ownership, whereby the common stockholders own at least ten percent (10%) of the outstanding voting stock of the Bank and at least twenty percent (20%) of the outstanding voting stock of the entity; (4) management contract or any arrangement granting power to the Bank to direct or cause the direction of management and policies of the entity; or (5) permanent proxy or voting trusts in favor of the Bank constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice versa. For a company to be "controlled" by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has power over more than one-half of the voting rights by virtue of an agreement with other stockholders, power to govern the financial and operating policies of the enterprise under a statute or an agreement, the power to appoint or remove the majority of the members of the board of directors or other equivalent governing body of that company, power to cast the majority votes at meetings of the board of directors or equivalent governing body, or otherwise controls or has the power to control the company through similar arrangements.

Specific Related Parties : The term "Prohibited Holders" includes BPI's related parties who are in possession or have access to material and non-public information which can affect the pricing and marketability of upcoming and outstanding BPI bond issuances, such as:

1. With respect to any issuance of BPI's bonds:

i. BPI Subsidiaries;

ii. BPI Affiliates;

iii. Directors of BPI;

iv. BPI officers holding positions of senior vice president or higher;

v. Officers and staff of BPI in the following departments/ divisions/ segments:

a. Global Markets;

b. Risk Management Office;

c. Compliance Office;

d. Office of the Corporate Secretary;

e. Unibank Centralized Accounting Division;

f. Corporate Planning;

g. Legal; and

h. All Assets and Liabilities Committee attendees;

vi. Spouses, children, and parents of all individuals covered by items (iii) to (v) above.

2. With respect to any issuance of BPI's bonds, the following persons for the duration that they are engaged for a proposed issuance of any tranche/ series of BPI's bonds:

   i. Select officers and staff of Arrangers and Selling Agents;

   ii. Select officers and staff of Bond Booking Vehicle;

   iii. Select officers and staff of Legal Counsels;

   iv. Select officers and staff of Auditors;

Tax Exempt/Treaty Documents : Bondholders who are exempt from or not subject to final withholding tax, or who are entitled to preferential tax rate may avail of such exemption or preferential tax rate by submitting the necessary documents. Said Bondholder shall submit the following requirements, in form and substance prescribed by the Bank, to the Registrar or to the relevant Selling Agent (together with their completed Application to Purchase) who shall then forward the same to the Registrar:

(a) Proof of Tax Exemption or Entitlement to Preferential Tax Rates

(i) For (a) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (b) cooperatives duly registered with the Cooperative Development Authority; and (c) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed "valid, current and subsisting" if it has not been more than 3 years since the date of issuance thereof;

(ii) For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator;

(iii) For all other tax-exempt entities (including, but not limited to, (a) non-stock, non-profit educational institutions; (b) government-owned or -controlled corporations; and (c) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax;

(iv) For entities claiming tax treaty relief pursuant to RMO 14-2021 – prior to the payment of interest due:

(a) three (3) originals of the BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder or, if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries,

(b) one (1) original of the valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws,

(c) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Issuer,
(d) three (3) originals of the duly notarized, consularized or apostilled (as the case may be), if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of its authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, is/are not doing business in the Philippines to support the applicability of a tax treaty relief; and
e) an original or certified true copy of the Certificate of Entitlement (**COE**) issued by the BIR International Tax Affairs Division (**ITAD**) certifying the Bondholder's entitlement to tax treaty relief in connection with the Fourth Tranche Bonds.

The Bondholder shall be responsible for filing a tax treaty relief application (**TTRA**) with the BIR ITAD to prove its entitlement to tax treaty relief, and in relation thereto, the Issuer shall, upon request of the Bondholder, provide the relevant documents which are required to be submitted for purposes of filing a TTRA. For avoidance of doubt, in order for the preferential rate to apply, the Bondholder must submit the COE issued by the BIR and the Tax Residency Certificate (**TRC**), together with their Application to Purchase, to the Selling Agents. In order for the Issuer to apply the preferential rate for the succeeding taxable years, the Bondholder must submit an updated TRC before the last day of the first month of the taxable year or at least ten (10) business days before the first interest payment for the taxable year, whichever is earlier. The Issuer shall withhold regular tax rates in its interest payments for the ensuing taxable year if the Bondholder fails to provide the updated TRC within the prescribed deadline.

(v) Any other document that the Bank or PDTC may require from time to time.

Only the originals should be submitted to the Joint Lead Arrangers, the relevant Selling Agent, the Bank or the Registrar.

(b) A duly notarized declaration (in the prescribed form) warranting that the Bondholder's tax-exemption certificate or ruling has not been revoked or cancelled and that there are no material changes in character, purpose or method of operation of the Bondholder which are inconsistent with the basis of its income tax exemption, or warranting the Bondholder's entitlement to preferential treaty rates, undertaking to immediately notify the Bank and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges, acknowledging the Bank's discretion to determine the sufficiency of the tax-exemption documents submitted and the applicable withholding tax, and agreeing to indemnify and hold the Bank and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax; and

(c) Such other documentary requirements as may be reasonably required by the Bank or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities.

Following the submission by the Bondholder of the above-mentioned documents in support of the tax benefits or of tax-exempt status claimed by such Bondholder, the Issuer shall make its own determination in each case as to whether, in its sole, prudent and reasonable discretion, such documents sufficiently establish such tax benefit and/or exemption available for any specific payment on the Fourth Tranche Bonds. Unless the Issuer makes such a determination, the Registrar and Paying Agent will be instructed to proceed on the basis that the relevant tax is due on and withhold such tax on payments under the Fourth Tranche Bonds. Any question on such determination shall be referred to the Issuer.

Early Redemption Option	:	The Issuer shall have the right, but not the obligation, to redeem in whole (but not in part) the outstanding Fourth Tranche Bonds starting on the first (1st) anniversary date of said Fourth Tranche Bonds, and every Interest Payment Date (such date, the Early Redemption Date) hereafter, at the amount equal to the Issue Price, plus accrued and unpaid interest thereon as of the Early Redemption Date (the Early Redemption Amount), provided, that if the relevant Early Redemption Date falls on a day that is not a Business Day, then the Early Redemption Amount shall be made by the Issuer on the next Business Day, without adjustment to the amount of interest to be paid. For the avoidance of doubt, the Bondholders shall not have any right to cause the Issuer to redeem the Fourth Tranche Bonds pursuant to this Early Redemption Option. In exercising the Early Redemption Option, the Issuer shall give not less than 30 but not more than 60 days' prior notice (the Early Redemption Notice) to the Bondholders, through the Trustee, PDEx and PDTC. After the issuance of the Early Redemption Notice, the Issuer shall be obliged to repay all of the Fourth Tranche Bonds to be redeemed at the Early Redemption Amount on the Early Redemption Date and, upon confirmation by the Paying Agent that the Early Redemption Amount has been paid, the outstanding Fourth Tranche Bonds shall then be deemed fully redeemed and cancelled.
Final Redemption	:	All Fourth Tranche Bonds outstanding on Maturity Date will be redeemed at par or 100% of face value.
Redemption for Taxation Reasons or Increase in Regulatory Reserves	:	If (a) payments under the Fourth Tranche Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date, or (b) the Issuer becomes subject to increased reserve requirements against Peso denominated obligations that include the Fourth Tranche Bonds, as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax or reserve requirement by Law or by regulation of the BSP cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Fourth Tranche Bonds in whole, but not in part, (having given not more than sixty (60) nor less than fifteen (15) days' prior written notice to the Trustee) at par or 100% face value plus accrued interest.
Issuer Rating	:	Baa2 (Moody's) / BBB+ (S&P) / BBB- (Fitch) / BBB (Capital Intelligence).
Ranking	:	The Fourth Tranche Bonds shall constitute the direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* and rateably without any preference or priority among themselves and with all other present and future unsecured and

		unsubordinated obligations of the Issuer, other than obligations preferred by the law.
Listing	:	The Issuer intends to list the Fourth Tranche Bonds for electronic trading and settlement on PDEx. Trading, transfer, and/or settlement of the Fourth Tranche Bonds shall be performed in accordance with the procedures set by PDEx and PDTC.
Governing Law	:	Philippine law.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth the indebtedness and capitalisation of the Bank as at 31 December 2020. This table should be read in conjunction with the Bank's audited consolidated financial statements as of 31 December 2020 and the notes presented elsewhere herein.

	As of 31 December 2020 Actual (₱ millions)
Short-term liabilities	
Deposit liabilities	731,596
Derivative liabilities	1,612
Bills payable	57,955
Due to BSP and other banks	1,491
Manager's checks and demand drafts outstanding	7,108
Accrued taxes, interest and other expenses	8,902
Liabilities attributable to insurance operations	11,841
Deferred credits and other liabilities	32,332
Total short-term liabilities	852,837
Long-term liabilities	
Deposit liabilities	984,581
Derivative liabilities	4,045
Bills payable	93,992
Liabilities attributable to insurance operations	2,506
Deferred credits and other liabilities	13,525
Total long-term liabilities	1,098,649
Total liabilities	**1,951,486**
Capitalisation	
Capital stock/Paid-in surplus	119,809
Reserves	416
Surplus	165,509
Accumulated other comprehensive loss	(5,899)
Non-controlling interest	2,122
Total capital funds	281,957
Total capitalisation and indebtedness	**2,233,443**
Capital Ratios[(1)]	
Common Equity Tier 1 ratio	16.17%
Tier 1 capital ratio	16.17%
Total capital ratio	17.06%

Note:

(1) Calculated based on BSP Circular No. 781—Basel III Implementing Guidelines on Minimum Capital Requirements.

SELECTED STATISTICAL DATA

The following unaudited information should be read together with the Bank's consolidated financial statements included in this Final Pricing Supplement as well as "Risk Management." All amounts presented in this section except for Average Daily Balance and Average Yield/Cost have been prepared in accordance with PFRS/PAS.

Average Statements of Condition and Related Interest[1]

The tables below present the average statements of condition together with the related interest revenue and expense amounts for interest-bearing assets and interest-bearing liabilities, resulting in the presentation of the average yields and costs for each period. The average yield on average interest-earning assets is the ratio of interest revenue to average interest-earning assets. The average cost on average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities.

	For the years ended 31 December								
	2018			2019			2020		
	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)
	(₱ millions, except percentages)								
Due from other banks	237,398	404	0.17	225,001	544	0.24	258,057	450	0.17
Interbank loans receivables and securities purchased under agreements to resell	23,913	769	3.22	29,057	1,178	4.05	28,600	1,494	5.22
Financial investments	310,620	9,615	3.10	369,862	12,709	3.44	386,489	12,052	3.12
Loans and advances	1,222,136	68,683	5.62	1,333,541	86,056	6.45	1,397,170	82,312	5.89
Total interest-earning assets	**1,794,067**	**79,471**	**4.43**	**1,957,461**	**100,487**	**5.13**	**2,070,316**	**96,308**	**4.65**
Deposit liabilities	1,533,114	21,255	1.39	1,608,167	28,874	1.80	1,696,994	18,986	1.12
Derivative instruments:									
Subordinated debt, bills payable, and other borrowings	73,460	2,599	3.54	125,590	6,038	4.81	132,398	5,058	3.82
Total interest-bearing liabilities	**1,606,575**	**23,854**	**1.48**	**1,733,756**	**34,912**	**2.01**	**1,829,392**	**24,044**	**1.31**

	For the nine months ended 30 September[1]					
	2020			2021		
	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)
	(₱ millions, except percentages)					
Due from other banks	256,944	1,114	0.58	253,352	984	0.52
Interbank loans receivables and securities purchased under agreements to resell	27,541	342	1.66	37,183	278	1.00
Financial investments	367,865	9,021	3.28	419,624	7,505	2.39
Loans and advances	1,410,029	63,271	5.99	1,359,509	53,836	5.29
Total interest-earning assets	**2,062,379**	**73,748**	**4.78**	**2,069,668**	**62,603**	**4.04**
Deposit liabilities	1,695,041	15,833	1.25	1,686,781	7,494	0.59
Derivative instruments:						
Subordinated debt, bills payable, and other borrowings	127,039	3,699	3.89	131,744	3,941	4.00
Total interest-bearing liabilities	**1,822,080**	**19,532**	**1.43**	**1,818,525**	**11,435**	**0.84**

Note:

(1) 2018, 2019, 2021 and September 2020 restated with impact of discontinued operation arising from BPICTL transaction.

Analysis of Changes in Interest Income and Interest Expense – Volume and Rate Analysis[1]

The following tables provide an analysis of changes in interest income, interest expense, and net interest income between changes in volume (average daily balances) and changes in rates for the year ended for the year ended 31 December 2018 compared to the year ended 31 December 2019 and for the year ended 31 December 2019 compared to the year ended 31 December 2020 and for the nine months ended 30 September 2021 compared to the nine months ended 30 September 2020. Volume and rate variances have been calculated on the movement in average daily balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities in proportion to absolute volume and rate change. The variance caused by the change in both volume and rate has been allocated in proportion to absolute volume and rate change.

	For the year ended 31 December 2018 compared to the year ended 31 December 2019			For the year ended 31 December 2019 compared to the year ended 31 December 2020		
		Increase (Decrease) Due to			Increase (Decrease) Due to	
	Net Change	**Change in Average Volume**	**Change in Average Rate**	**Net Change**	**Change in Average Volume**	**Change in Average Rate**
			(₱ millions)			
Interest income on:						
Financial investments	3,094	59,242	0.34	(657)	16,627	(0.32)
Loans and advances	17,373	111,405	0.83	(3,744)	63,629	(0.56)
Deposits with BSP and other banks	549	(7,252)	0.91	222	32,598	1.10
Interest expense on:						
Deposits	7,619	75,052	0.41	(9,888)	88,827	(0.68)
Bills payable and other borrowings	3,439	52,129	1.27	(980)	6,808	(0.99)
Net interest income	**9,958**	**36,213**	**0.17**	**6,689**	**17,219**	**0.22**

	For the nine months ended 30 September 2021 compared to the nine months ended 30 September 2020		
		Increase (Decrease) Due to	
	Net Change	**Change in Average Volume**	**Change in Average Rate**
		(₱ millions)	
Interest income on:			
Financial investments	(1,516)	51,759	(0.88)
Loans and advances	(9,435)	(50,520)	(0.70)
Deposits with BSP and other banks	(194)	6,050	(0.72)
Interest expense on:			
Deposits	(8,339)	(8,260)	(0.65)
1Bills payable and other borrowings	242	4,705	0.11
Net interest income	(3,048)	10,844	(0.14)

Note:

(1) 2018, 2019, 2021 and September 2020 restated with impact of discontinued operation arising from BPICTL transaction.

RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has loan transactions with a subsidiary and with certain directors, officers, stockholders and related interests. Under the Bank's policies, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risk.

For further information on the Bank's related party transactions, including detailed breakdowns of amounts receivable from related parties and the income and expenses relating to related party transactions, see Note 25 to the Bank's audited financial statements as of and for the years ended 31 December 2018, 2019 and 2020 and Note 14 to the Bank's reviewed condensed financial statements as of and for the nine months ended 30 September 2021.

The Bank has not included the volume of transactions and maturity dates in the audited financial statements since these loans do not have a material effect on the total loan portfolio and are short term in nature.

DOSRI Loans and Deposits

The following table sets out certain information relating to the Bank's DOSRI loans as of the dates indicated:

	As of 31 December			As of 30 September
	2018	2019	2020	2021
	(₱ millions, except percentages)			
Total outstanding DOSRI loans	8,248	10,026	15,675	19,442
Percentage of DOSRI loans to total loans	0.60%	0.67%	1.08%	1.36%
Percentage of unsecured DOSRI loans to total DOSRI loans	21.51%	17.30%	3.20%	2.51%

Certain Relationships and Related Transactions

In the ordinary course of business, the Bank has loan transactions with a subsidiary, and with certain DOSRI. Under the Bank's policies, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

On 31 January 2007, BSP Circular No. 560 was issued providing the rules and regulations that shall govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the Bank's subsidiaries and affiliates shall not exceed 10.0% of bank's net worth, and the unsecured portion shall not exceed 5.0% of such net worth. Further, the total outstanding exposures shall not exceed 20.0% of the net worth of the lending bank. The Bank is in compliance with such regulations.

The following table shows information relating to DOSRI accounts of the Bank:

	As of 31 December			As of 30 September
	2018	2019	2020	2021
Total outstanding DOSRI accounts (in ₱ millions)	8,248	10,026	15,675	19,442
Percent of DOSRI accounts to total loans	0.6%	0.7%	1.1%	1.4%
Percent of DOSRI accounts to total capital	3.3%	3.7%	5.6%	6.7%
Percent of unsecured DOSRI accounts to total DOSRI loans	21.5%	17.3%	3.2	2.5%
Percent of past due DOSRI accounts to total DOSRI loans	-	0.01%	0.0%	0.0%
Percent of nonperforming DOSRI accounts to total DOSRI loans	-	-	0.0%	0.0%

The year-end balances as of 31 December 2018, 2019, and 2020 in respect of subsidiaries included in the Bank's financial statements are as follows (amounts in millions):

	As of 31 December		
	2018	2019	2020
Loans and receivables	53	58	189
Deposit liabilities	8,722	9,746	7,942

The income and expenses for the years ended 31 December 2018, 2019, and 2020 in respect of subsidiaries included in the Bank's financial statements are as follows (amounts in millions):

	For the year ended 31 December		
	2018	2019	2020
Interest income	84	99	21
Interest expense	84	99	21

The effects of the foregoing transactions are shown under the appropriate accounts in the Bank's financial statements.

The significant inter-company transactions and outstanding balances of the Bank with its subsidiaries were eliminated in consolidation. The Bank is not a subsidiary of any corporation and had no transactions with promoters.

BANKING REGULATION AND SUPERVISION

The following is a summary of new laws and regulations in the Philippines applicable to the Bank, since the date of the Offering Circular. For further discussion on banking regulation and supervision considerations applicable to the Bank, please see Banking Regulation and Supervision on page 136 of the Offering Circular. The information detailed in this chapter has been obtained from publications available in the public domain. The regulations set out below may not be exhaustive, and are only intended to provide general information to the investors and are neither designed nor intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.

Regulatory Relief for BSP-supervised financial institutions (BSFIs) Affected by COVID-19

The BSP issued Memorandum No. M-2020-008 dated 14 March 2020 granting BSFIs the option to avail of a regulatory relief package within one year from 8 March 2020. The package gives BSFIs the following reliefs:

1. BSFIs may provide financial assistance under Sec. 135 of the MORB to officers affected, whether or not it is within the scope of BSP-approved purposes;

2. Upon grant by BSFIs of a temporary grace period or upon approval of the restructuring, but subject to reporting to BSP, exclusion from the past due and non-performing classification, the loans of borrowers in affected areas which should have been reclassified as past due, as of 8 March 2020, the date of declaration of the President of the state of public health emergency, including those loans becoming past due or non-performing six months thereafter, shall be excluded from the past due and non-performing classifications from 8 March 2020 to 31 December 2021. BSP documentary requirements for restricting of loans may be waived, provided the BSFI adopts appropriate and prudent operational control measures (as amended by BSP Memorandum No. M-2020-032 dated 27 April 2020).

3. No monetary penalties for delays incurred in the submission of supervisory reports shall be imposed from 8 March 2020 and up to six months thereafter;

4. Subject to BSP's prior approval, staggered booking of allowance of credit losses computed under Sec. 143 of the MORB may be allowed over a maximum period of five years for all types of credits extended to individuals and businesses directly affected by COVID-19 as of 8 March 2020;

5. A moratorium, without penalty, on monthly payments due to the BSP, for a period of six months from 8 March 2020 is extended to BSFIs with ongoing rehabilitation upon filing of application of extension/rescheduling with the Department of Loans and Credit; and

6. Subject to prior approval of the BSP, no penalties shall be imposed on legal reserve deficiencies from reserve week following 8 March 2020 up to six months thereafter.

In addition, all rediscounting banks are given the following reliefs:

1. Grant of 60-day grace period to settle outstanding rediscounting obligations with the BSP as of 8 March 2020. This shall be made upon application and shall not apply to banks with serious violations or findings as may be determined by the BSP. Interest shall be charged but no penalty shall be imposed;

2. Rediscounting banks are allowed to restructure with the BSP, on a case-to-case basis, the outstanding rediscounting loans as of 8 March 2020; and

3. Eligibility requirements are relaxed by excluding the criteria on reserve requirement for the renewal of rediscounting line and for the availment of rediscounting loans from 8 March 2020 up to six months thereafter.

On 19 March 2020, the BSP issued Memorandum No. M-2020-011 granting the following additional operational relief measures for BSFIs affected by COVID-19:

1. Increase in the single borrower's limit from 25% to 30% until 31 December 2021, pursuant to national interest (as amended by BSP Memorandum No. M-2021-026 dated 26 April 2021);

2. Relaxation in the maximum penalty imposable for reserve deficiencies which shall be the Overnight Lending Facility rate plus 10 basis point– for the duration of the ECQ plus 15 days thereafter: provided, that the maximum reserve deficiency of the BSFI shall be 200 basis points, and the excess above that shall be subject to regular penalties (as amended by BSP Memorandum No. M-2020-025 dated 13 April 22);

3. Relaxation of the notification requirements related to changes in banking hours where a bank need not inform the BSP of changes in its banking hours, as required under Section 108 of the MORB, during the ECQ;

4. Relaxation of the notification requirements on the temporary closure of bank branch/branch-lite units and BSFI offices/service units;

5. Relaxation in the regulations governing the submission of reports and other documents to the BSP-Financial Supervision Sector (FSS); and

6. Extension in the period of compliance with BSP supervisory requirements.

On 3 August 2020, the BSP issued Memorandum No. M-2020-061 which provides for the supervisory expectations on the measurement of expected credit losses (ECL) and the treatment of regulatory relief measures granted amid the COVID-19 pandemic. The supervisory expectations provide, among others, that BSFIs that will avail of the regulatory relief measures to exclude eligible loans from past due and non-performing classifications and to stagger the booking of allowance for credit losses shall continue to report actual past due and NPL and allowance for credit losses in the Financial Reporting Package (FRP) and the Capital Adequacy Ratio (CAR) reports. This is to facilitate the generation of industry statistics and provide the BSP with information on the true health of the banking system.

On 26 April 2021, the BSP issued Memorandum No. M-2021-026 approving amendments to BSP regulations on the credit-related regulatory relief measures for BSFIs affected by COVID-19 as an interim measure pending the full operationalization of the Financial Institutions Strategic Transfer (FIST) Act in 2021. Under the said memorandum, the following loans of affected borrowers granted a temporary grace period or restructured by the BSFI, in view of the COVID-19 may be excluded from the past due and NPL classification until 31 December 2021: (a) loans which should have been reclassified as past due as of 8 March 2020, and (b) loans that have become past due or non-performing, six months from 8 March 2020 up to 31 March 2021.

Bayahinan 1

On 24 March 2020, Congress passed Republic Act No. 11469 or the Bayanihan to Heal as One Act (**Bayanihan 1**), which confers emergency powers on the President of the Philippines. Section 4(aa) of Bayanihan 1 directed all banks to implement a grace period for the payment of all loans falling due within the ECQ for a minimum of 30 days, without interests, penalties, and other charges. Under the Bayanihan 1, persons with multiple loans were granted a minimum grace period of 30 days for each and every loan. The BSP likewise issued several circulars and memoranda to address the issue.

On 1 April 2020, the BSP issued Memorandum No. M-2020-017 containing the implementing rules and regulations of Section 4(aa) of Bayanihan 1. The IRR required banks to implement the 30-day grace period for all loans with principal and/or interest falling due within the ECQ Period, without incurring interest on interest, penalties, fees, or other charges. This 30-day grace period shall automatically be extended if the ECQ is extended by the President. In addition, banks are prohibited from requiring their clients to waive the application of the provisions of the Bayanihan Act, including the mandatory 30-day grace period. However, this does not preclude the borrowers from paying their obligations as they fall due during the ECQ.

The grace period provided under the Bayanihan Act ceased to be effective on 1 June 2020, as clarified under BSP Memorandum No. M-2020-45. On 24 June 2020, Bayanihan 1 expired.

Bayanihan 2

On 11 September 2020, Congress passed Republic Act No. 11494 or the Bayanihan to Recover as One Act (**Bayanihan 2**) to extend the President's emergency powers. Section 4(uu) of Bayanihan 2 directed all banks to implement a non-extendible, mandatory one-time 60-day grace period for all existing, current, and outstanding loans with principal and/or interest, including amortizations, falling due on or before December 31, 2020 without incurring interest on interests, penalties, fees, or other charges. Parties were not precluded from mutually agreeing to a grace period longer than 60 days.

Section 4(ccc) of the same law encouraged the BSP to allow private banks to (1) reallocate any unutilized loanable fund to housing loans, and (2) grant subsidy to the home loan borrowers at the rate equivalent to the gross receipt tax imposed on banks on their interest income. Finally, Section 4(ddd) of the same law encouraged the BSP and the SEC to adopt measures, including the relaxation of regulatory and statutory restrictions and requirements for a period of not more than one year from the date of their effectivity, to encourage the banking industry to extend loans and other forms of financial accommodation to help businesses recover from the economic effects of the COVID-19 crisis. The BSP and the SEC were likewise authorized to grant reporting relief to it supervised entities by allowing staggered booking of allowance for credit losses for all types of credit accommodations extended to individuals and business entities affected by COVID-19.

On 18 September 2020, the BSP issued Memorandum No. M-2020-068 containing the implementing rules and regulations of Section 4(uu) of Bayanihan 2. The IRR required banks to implement a mandatory, one-time 60-day grace period for all loans with principal and/or interest falling due on or before 31 December 2021, without incurring interest on interest, penalties, fees, or other charges.

Bayanihan 2 expired on 30 June 2021.

Reserve Requirements

Commencing on reserve week 3 April 2020, the BSP pursuant to BSP Circular No. 1082 (Series of 2020) reduced the rates of required reserves against deposit and deposit substitute liabilities in local currency for universal and commercial banks to 12% against demand deposits, negotiable order of withdrawal (**NOW**) accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable certificates of time deposits (**CTDs**), long-term non-negotiable tax-exempt CTDs, deposit substitutes, Peso deposits lodged under due to foreign banks, and Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank).

The BSP maintained such reserve requirements for universal banks under Circular No. 1092 (Series of 2020), compliance with which begun commencing on reserve week 31 July 2020.

Alternative Compliance with Reserve Requirements

On 22 April 2020, the BSP issued BSP Circular No. 1083 to recognize loans granted to MSMEs after 15 March 2020 as allowable alternative compliance with the required reserves against deposit and deposit substitute from 24 April 2020 to 30 December 2021. To be considered as compliant, the MSME loan should be granted after 15 March 2020 and should not be hypothecated or encumbered in any way, rediscounted with the BSP, or earmarked for any other purpose. The willful making of a false or misleading statement in relation to the reporting of MSME loans for compliance shall subject the bank and the directors/officers responsible for violation of Sections 35 and 37 of Republic Act No. 7653 or the New Central Bank Act, as amended by Republic Act No. 11211.

Pursuant to BSP Memorandum No. M 2020-029, issued on 23 April 2020, MSME loans that are utilized as alternative compliance with reserve requirements shall be temporarily reported by Universal Banks under Investments in bonds and Other Debt Instruments.

On 27 May 2020, the BSP, pursuant to BSP Circular No. 1087, provided more alternative modes of compliance with the reserve requirement such as: (a) Peso-denominated loans that are granted to MSMEs, and (b) Peso-denominated loans that are granted to large enterprises, subject to conditions set out in the circular.

Exclusion of Debt Securities Held by Market Makers from the Single Borrowers Limit (SBL)

On 22 July 2020, the BSP issued BSP Circular No. 1091 excluding the debt securities held by market makers from the credit limit to a single borrower for a period not exceeding 90 days if acquired from 1 August 2020 to 31 July 2021 and for a period of 60 days if acquired from 1 August 2021 onwards, provided that:

1. the market-making positions shall be taken up in the trading book in accordance with Section 614/614-Q on investment activities of BSFI;

2. the market-making positions shall be properly identified and segregated from the BSFI's proprietary positions; and

3. the BSFI shall periodically monitor the market value of the subject debt securities and the number of days the securities have been outstanding from date of acquisition.

Amendment to the Real Estate Limits of Banks

On 13 August 2020, the Monetary Board increased the total real estate loan limit from 20% to 25% of the total loan portfolio, net of interbank loans, of universal and commercial banks. A stress test will be undertaken on a universal and commercial bank's real estate exposure under an assumed write-off of 25%. Further, the amendments removed residential real estate loans to individual households for occupancy for socialized, low-cost, mid-end, and high-end housing segments from the coverage of real estate exposures.

SMS-Based Attacks Targeting Customers of Financial Institutions

On 19 August 2020, BSP issued Memorandum No. M-2020-066 reminding BSFIs to further intensify information security awareness and education campaigns for their employees, clients, and other relevant stakeholders against SMS-based attacks such as SMiShing and SMS spoofing. Likewise, BSFIs are suggested to review multi-factor authentication controls implementation to address inherent vulnerabilities and weakness arising from SMS-based sending of OTPs. Given the fast-evolving nature of these attacks, BSFIs are encouraged to adopt multi-layer controls such as calibration of fraud management system rules and parameters and conduct of threat hunting exercises to detect unusual activities and takedown phishing sites, among others. Lastly, as part of the BSFI's consumer protection program, customers' verification requests and complaints in relation to SMiShing and SMSS spoofing incidents should be acted upon immediately to minimize financial losses.

Ceiling on Interest or Finance Charges for Credit Card Receivables

On 24 September 2020, the BSP issued BSP Circular No. 1098 amended the ceiling on interest or finance charges for credit card receivables of banks and non-bank financial institutions so as not to exceed an annual interest rate of 24%, except credit card installment loans which shall be subject to monthly add-on rate not exceeding 1%. For credit card cash advances, aside from the forgoing applicable maximum interest rate caps, no other charge or fee shall be imposed or collected apart from the processing fee in the maximum amount of Php200.00 per transaction. Such maximum processing fee and interest rates or finance charges shall be subject to review by BSP every six months.

Banks and non-banks financial institutions shall also notify the cardholder at least 90 days prior to any change in the manner of computation of the outstanding balance and the amount of fees to be imposed on the cardholder.

For both bank and non-bank financial institutions, the rate of interest, including commissions, premiums, fees and other charges, on any loan, or forbearance of any money, goods or credits regardless of maturity and whether secured or unsecured, shall not be subject to any regulatory ceiling, except for the interest or finance charges imposed on credit card receivables, including cash advances and installment purchases and for the maximum processing fee credit card cash advances.

Phishing and Other Similar Social Engineering Attacks

On 12 December 2020, BSP issued Memorandum No. M-2020-090 recognizing that phishing attacks remain to be one of the top cyber risks in the digital financial services landscape, especially in this time of the COVID-19 pandemic where the use of digital payments and financial services has significantly increased. ln view thereof, BSFIs are encouraged to review the recommended controls and measures in previous BSP Memoranda on Guidance on Management of Risks associated with Fraudulent E-mails or Websites, SMS-Based Attacks Targeting Customers of Financial Institutions, and other similar BSP issuances. BSFIs are also encouraged to intensify information security awareness and education campaigns as a first line of defense against these phishing and social engineering attacks. Further, BSFIs should minimize risk exposure through employing defense-in-depth security strategies such as calibration of fraud management system rules and parameters, conduct of threat hunting exercises to detect unusual activities and takedown of phishing sites, among others. Likewise, BSFIs should ensure that timely and appropriate consumer protection and redress mechanisms are in place. To preserve the banking public's trust and confidence in digital financial services, BSFIs were advised to implement the following:

1. consumer assistance helpdesk or hotline available 24 hours a day and 7 days a week (24x7);

2. increased surveillance on online banking systems/activities during holidays or long weekends;

3. facility to timely block/suspend accounts reported by clients/concerned parties or those tagged as fraudulent or suspicious; and

4. procedures to resolve disputes arising from the use of the digital financial services within the established turn-around-time.

Financial fraud resulting from phishing and other types of cyber-related crimes should also be promptly reported to the BSP.

Non-extension of Term Limit for Independent Directors

On 23 April 2021, BSP issued Memorandum No. M-2021-025 advising BSFIs that the BSP shall not approve requests for exemption from the term limits of independent directors. Under Manual on Regulations of Banks, an independent director of a BSFI may only serve as such for a maximum cumulative term of nine years to be reckoned from 2012. After which, the independent director shall be perpetually barred from serving as independent director in the same BSFI but may continue to serve as its regular director.

Discriminatory Practices Toward Persons with Disability (PWD)

On 16 July 2021, BSP issued Memorandum No. M-2021-040 reminding BSFIs to take into account the needs of PWDs, and adhere to laws and regulations against discriminatory practices toward PWDs, including but not limited to, the following:

- non-acceptance of government-issued PWD identification cards for the opening of accounts and other financial transactions;
- turning away visually impaired persons from opening bank accounts; and
- requiring the visually impaired customers to open only joint ("and/or") accounts.

Apart from mobility ramps and Braille system in bank premises and ATMs, all BSFIs are also reminded to provide express lanes for PWDs similar to those express lanes reserved for senior citizens and pregnant women within their premises.

Data Breach Prevention and Control

On 5 August 2021, BSP issued Memorandum No. M- 2021-043 advising BSFIs to further strengthen their data breach prevention and control mechanisms through the following:

1. regular conduct of information security education and awareness campaigns incorporating data protection standards and procedures.

2. adequate security policies, procedures, and standards on: (i) data classification and control, (ii) identity and access management following the principles on least privilege and segregation of duties/functions (iii) remote work arrangements and bring your own device (BYOD), vulnerability and patch management; (iv) outsourcing and vendor management; (v) enhanced screening and hiring practices for officers and employees handling sensitive information; (vi) secure destruction and disposal of data and media; and (vii) activity monitoring, auditing, and logging.

3. implementation of security technologies and solutions such as: (i) encryption for both data-at-rest and data-in-transit; (ii) automated data discovery and classification; (iii) data loss prevention; (iv) database activity monitoring; and (v) endpoint security.

4. proper identification of systems and processes involving sensitive information and commensurate implementation of controls.

5. adoption of a defense in depth approach in managing cybersecurity.

BSFIs are likewise reminded that significant data loss or massive data breach and other cyber-related incidents should be promptly reported to the BSP in accordance with Sections 148 of the MORB and Sections 147-Q/145-S/142-P/126-N of the MORNBFI. BSFIs should likewise notify the National Privacy Commission and their customers for data breaches involving sensitive personal information pursuant to applicable data privacy laws and regulation.

Modus Operandi of Organized Crime Groups through Auto Loans

On 26 August 2021, BSP issued Memorandum No. M-2021-047 advising all BSFIs about the modus operandi of organized crime groups through auto loans. Carnapping syndicates acquire high-end motor vehicles (**MV**) through auto loans under fictitious identities. The mortgaged MVs are subsequently sold to the public using fake conduction stickers and plate numbers. These may be prevented by reinforcing the conduct of, among others, customer identification and verification procedures as part of the customer due diligence. BSFIs are cautioned to strictly observe and strengthen the implementation of the requirements pursuant to the AMLA Regulations, particularly on customer identification and verification procedures, ongoing monitoring of customers and their transactions, suspicious transaction reporting, and continuing AMLA training program, including controls relating to partner/accredited car dealers.

Temporary Regulatory Relief on the Capital Treatment of Provisioning Requirements under the Philippine Financial Reporting Standard (PFRS) 9

On 19 October 2021, BSP issued Memorandum No. M-2021-055, granting temporary regulatory relief on the capital treatment of provisioning requirements under Philippine Financial Reporting Standard (PFRS) 9, by allowing an “add-back” factor until 2023.Under said measure, covered BSP-supervised Financial Institutions (**BSFIs**), will be allowed to “add-back” increase in the Stage 1 and Stage 2 provisioning requirements booked under the allowance for credit losses from the end of December 2019 to CET 1 capital, over a period of two (2) years commencing 01 January 2022, subject to a declining add-back factor.

For the 01 January 2022 to 31 December 2022 period of availment, the add-back factor is 100%, while for the 01 January 2023 to 31 December 2023 period of availment, the add-back factor is 50%.

To determine the amount which will be added back to the CET1 capital, a BSFI shall compare the sum of its Stage 1 and Stage 2 provisioning booked under the allowance for credit losses as of the current reporting period, with the sum of its Stage 1 and Stage 2 provisioning booked under the allowance for credit losses as of the end of December 2019. If the former is higher than the latter, the add-back factor corresponding to the period of availment shall be applied to the difference to determine the amount that may be added back to the CET 1 capital. If the latter is higher than or equal to the former, no amount shall be added back to the CET 1 capital.

The amount of general provisions (GP) (Stage 1 provisions) and Retained Earnings GP (RE-GP) that will be considered as the Tier 2 capital, shall be reduced by the amount of Stage 1 provisions added back to CET 1 capital. The amount that will be added to Tier 2 capital will continue to be subject to the maximum limit of 1.0 percent of credit risk-weighted assets.

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

On 21 October 2021, BSP issued Memorandum No. M-2021-056, providing guidelines on the regulatory treatment of restructured loans for purposes of measuring expected credit losses (**ECL**), effective until 31 December 2022.

The classification of loans whose terms are modified due to the COVID-19 pandemic under Stage 1, 2, or 3, for purposes of determining ECL shall be based on the assessment of the extent of financial difficulty of the borrowers and their ability to fully pay the loan based on the revised terms. Loans that have been restructured to support borrowers that are experiencing financial difficulties due to the COVID-19 pandemic should not automatically be considered as credit-impaired that will warrant the classification of the accounts as non-performing.

Financial Institutions Strategic Transfer Act

Pursuant to Republic Act No. 11523 or the Financial Institutions Strategic Transfer (**FIST Act**), a FISTC is a corporation organized under the laws of the Philippines that is authorized to invest in the NPAs of credit-granting institutions, such as banks, financing companies, investment houses, lending companies, insurance companies, accredited microfinance nongovernmental organizations, government financial institutions, government-owned or controlled corporations, other institutions licensed by the BSP to perform quasi-banking functions and credit-granting activities, and engage in other related activities (**FISTC**). Pursuant to the FIST Act, NPAs of financial institutions may be transferred to a FISTC after notice to but without the consent of the borrower. Such transfers from financial institutions to FISTCs and those from a FISTC to a third party, dation in payment by a borrower, a third party in favor of a financial institution or in favor of a FISTC are exempt from the following taxes:

(a) Documentary stamp tax on such transfer of NPAs and dation in payment under the Tax Code;
(b) Capital gains tax imposed on the transfer of lands and/or other assets treated as capital assets as defined under Section 39(A)(1) of the Tax Code;
(c) Creditable withholding income taxes imposed on the transfer of land and/or buildings treated as ordinary assets pursuant to Revenue Regulations No. 2-98, as amended;
(d) Value-added tax on the transfer of NPAs, or gross receipts tax the Tax Code, whichever is applicable.

All sales or transfers of NPAs from a financial institution to a FISTC or transfers by way of dation in payment by the borrower or by a third party to a financial institution shall be entitled to the privileges enumerated herein for a period of not more than two years from the effectivity of the FIST Law.

Transfers from a FISTC to a third party of NPAs acquired by the FISTC within such two-year period, or within such extended period, or transfers by way of dation in payment by a borrower to a FISTC shall enjoy the privileges enumerated above for a period of not more than five years from the date of acquisition by the FISTC. Properties acquired by a FISTC from government financial institution or government operated and controlled corporations which are devoted to socialized or low-cost housing shall not be converted to other uses.

The provisions of these Rules shall be applicable to assets that have become non-performing on or before December 31, 2022.

Philippine Competition Act ("PCA")

R.A. 10667 or the PCA authorizes the Philippine Competition Commission or the PCC to review mergers and acquisitions to ensure compliance with the PCA. The PCA, its Implementing Rules and Regulations, as amended, and the Rules on Merger Procedure (collectively, the "Merger Rules") provides for mandatory notification to the PCC of any merger or acquisition within 30 days of signing any definitive agreement relating to the transaction, where the transaction value exceeds ₱2.2 billion; and where the size of the ultimate parent entity of either party exceeds ₱5.6 billion. Parties may not consummate a notifiable transaction prior to receiving PCC approval or the lapse of the period stated in the Merger Rules. A merger or acquisition that meets the thresholds under the Merger Rules but was not notified to the PCC, or notified but consummated, in whole or in part, prior to the expiration of the waiting period, is considered void and will subject the parties to a fine ranging from 1% to 5% of the value of the transaction. Anti-competitive agreements, as defined under the law, are subject to penalties that include: (a) a fine of not less than ₱50 million but not more than ₱250 million; and (b) imprisonment for 2 to 7 years for directors and management personnel who knowingly and willfully participate in such criminal offenses. Administrative fines of ₱100 million to ₱250 million may be imposed on entities that engage in anti-competitive agreements, abuse their dominant position and conclude prohibited mergers and acquisitions. Treble damages may be imposed where the violation involves the trade or movement of basic necessities and prime commodities.

Pursuant to the Bayanihan 2 Act, which was signed into law on 11 September 2020, all mergers and acquisitions with transaction values below ₱50 billion shall be exempt from compulsory notification under the PCA if entered into within a period of two (2) years from the effectivity of Bayanihan 2 Act. Further, such mergers and acquisitions shall also be exempt from the PCC's power to review mergers and acquisitions motu proprio for a period of one (1) year from the effectivity of the Bayanihan 2 Act. However, transactions entered into prior to the effectivity of the Bayanihan 2 Act which has not yet been reviewed by the PCC; and transactions pending review by the PCC prior to the effectivity of the Bayanihan 2 Act shall not be covered by the exemption from the PCC's power to review transactions motu proprio. Further, mergers and acquisitions entered into during the effectivity of the Bayanihan 2 Act may still be reviewed by the PCC motu proprio after one year from the effectivity of the law.

TAXATION

The information provided below does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase the Fourth Tranche Bonds. In particular, the information does not consider any specific facts or circumstances that may apply to a particular purchaser. Neither these statements nor any other statements in this Final Pricing Supplement are to be regarded as advice on the tax position of any holder of the Fourth Tranche Bonds or of any person acquiring, selling or otherwise dealing with the Fourth Tranche Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Fourth Tranche Bonds. The statements do not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Fourth Tranche Bonds and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules.

Prospective purchasers of Fourth Tranche Bonds are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Fourth Tranche Bonds, including the effect of any national or local taxes, under the tax laws or regulations relevant thereto, such as but not limited to Revenue Memorandum Circular No. 7-2015 and related issuances of the Bureau of Internal Revenue, applicable in the Philippines and any other country of which they may be nationals or residents.

The following is a general description of certain Philippine tax aspects of the Fourth Tranche Bonds. It is based on the National Internal Revenue Code of 1997, as amended, including by Republic Acts No. 10963 and 11534 (the **Tax Code**), the regulations promulgated thereunder and judicial and ruling authorities in force as of the date of the Offering Circular dated 13 January 2020, all of which are subject to changes occurring after such date, which changes could be made on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Fourth Tranche Bonds. Each prospective Bondholder should consult with his own tax advisors as to the laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding and disposing of the Fourth Tranche Bonds.

As used herein, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "non-resident alien" is an individual who is neither a citizen nor a resident of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines," otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "domestic corporation" is a corporation created or organized in the Philippines of under its laws while a "foreign corporation" is a corporation that is not domestic. A "resident foreign corporation" is a foreign corporation engaged in trade or business in the Philippines; and a "non-resident foreign corporation" is a foreign corporation not engaged in trade or business in the Philippines.

Documentary Stamp Taxes

Under Republic Act No. 10963, which amended certain provisions of the Tax Code, a documentary stamp tax is imposed upon every original issue of debt instruments such as bonds and notes, at the rate of ₱1.50 on each ₱200, or fractional part thereof, of the issue price of such debt instruments. The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted or transferred when the obligation or right arises from Philippine sources, the property is situated in the Philippines, or where the object of the contract is located or used in the Philippines.

No documentary stamp tax is imposed on a subsequent sale or disposition of the Fourth Tranche Bonds if there is no change in the maturity date or remaining term of the Fourth Tranche Bonds.

Interest on the Fourth Tranche Bonds

The Tax Code defines "deposit substitutes" as an alternative form of obtaining funds from the public, other deposits, through the issuance endorsement, or acceptance of debt instruments for the borrower's own account, for the purpose of relending or purchasing of receivables and other obligations, or financing their own needs or the needs of their agent or dealer. Obtaining funds from the "public" in this instance means borrowing from twenty (20) or more individual or corporate lenders at any one time.

The Fourth Tranche Bonds may be considered as deposit substitutes issued by Philippine residents with a maturity period of less than five (5) years. As such, interest income arising from the Fourth Tranche Bonds are considered as Philippine sourced income subject to final withholding tax at the following rates:

Philippine citizens and resident alien individuals	20%

Non-Resident aliens doing business in the Philippines	20%
Non-resident aliens not doing business in the Philippines	25%
Domestic corporations	20%
Resident foreign corporations	20%
Non-resident foreign corporation	25%

The aforementioned final withholding tax rates may be reduced by applicable provisions of tax treaties in force between the Philippines and the tax residence country of the non-resident Bondholder. Most tax treaties to which the Philippines is a party provide for a preferential reduced tax rate of 15% where Philippine sourced interest income is paid to a resident of the other contracting state. However, tax treaties would also normally qualify that the preferential reduced tax rates will not apply if the recipient of the interest income, even if considered a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected to such permanent establishment.

Revenue Memorandum Order No. 14-2021 (**RMO**), issued on March 31, 2021 streamlines the procedure and documents for the availment of treaty benefits. The RMO covers all items of income derived by non-resident taxpayers from Philippine sources that are entitled to relief from double taxation under the relevant tax treaty.

The withholding agent or income payor may rely on the submitted BIR Form No. 0901 (Application Form for Treaty Purposes), Tax Residency Certificate (TRC) duly issued by the foreign tax authority, and the relevant provision of the applicable tax treaty on whether to apply a reduced rate of, or exemption from, withholding at source on the income derived by a non-resident taxpayer from all sources within the Philippines. Therefore, it is imperative for non-resident taxpayers intending to avail of treaty benefits to always submit said documents to each withholding agent or income payor prior to the payment of income for the first time.

Failure to provide the said documents when requested may lead to withholding using the regular rates prescribed under the Tax Code, as amended, for non-resident foreign corporations or non-resident aliens not engaged in trade or business, as the case may be, and not the treaty rate.

When the treaty rates have been applied by the withholding agent on the income earned by the non-resident, the former shall file with International Tax Affairs Division (ITAD) a request for confirmation on the propriety of the Withholding Tax rates applied on that item of income. On the other hand, if the regular rates have been imposed on the said income, the non-resident shall file a Tax Treaty Relief Application (TTRA) with ITAD. In either case, each request for confirmation and TTRA shall be supported by the documentary requirements specified in the Order.

The request for confirmation shall be filed by the withholding agent at any time after the close of the taxable year but shall in no case be later than the last day of the fourth (4th) month following the close of such taxable year when the income is paid or becomes payable, or when the expense/asset is accrued or recorded in the books, whichever comes first.

If the BIR determines that the Withholding Tax rate applied is lower than the rate that should have been applied on an item of income pursuant to the treaty, or that the non-resident taxpayer is not entitled to treaty benefits, it will issue a BIR Ruling denying the request for confirmation or TTRA. Consequently, the withholding agent shall pay the deficiency tax plus penalties.

On the contrary, if the Withholding Tax rate applied is proper or higher than the rate that should have been applied, the BIR will issue a certificate confirming the non- resident income recipient's entitlement to treaty benefits. In the latter case, the taxpayer may apply for a refund of excess Withholding Tax.

Generally, one TTRA or request for confirmation shall be filed for each transaction except for long-term contracts (e.g. contracts for services or loan agreements, license agreements, etc.) i.e., those which are effective for more than a year, where an annual updating shall be made until the termination of the contract.

To ensure that the proper rate is applied until the end of the contract, the non-resident taxpayer must submit the COE issued by the BIR and the updated TRC before the last day of the first month of the taxable year or at least ten (10) business days before the first interest payment for the taxable year, whichever is earlier to the Selling Agents.

If the income of the non-resident taxpayer has been subjected to regular rates, he/she/it may subsequently file a claim for refund of the difference between the amount of Withholding Tax actually paid in the Philippines and the amount of tax that should have been paid under the treaty after obtaining a certificate confirming his/her/its entitlement to treaty benefits. For this purpose, a duly accomplished BIR Form No. 1913 shall be filed together with the letter-request.

All claims for refund shall be filed within the two-year prescriptive period provided under Section 229 of the Tax Code, as amended.

In any case, all Bondholders are required to submit to the Bank, through the Paying Agent, their respective BIR-issued Taxpayer Identification Numbers (TIN).

Tax Exempt Status

Bondholders who are exempt from, are not subject to final withholding tax, or are subject to a lower rate of final withholding tax on interest income may avail of such exemption or preferential withholding tax rate by submitting the necessary documents. Said Bondholder shall submit the following requirements, in form and substance prescribed by the Bank, to the Registrar or the Selling Agents (together with their completed Application to Purchase) who shall then forward the same to the Registrar:

(i) (a) For (1) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (2) cooperatives duly registered with the Cooperative Development Authority; and (3) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR confirming its exemption or preferential rate, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement or amendment thereto. For this purpose, a tax exemption certificate or ruling shall be deemed "valid, current and subsisting" if it has not been more than 3 years since the date of issuance thereof;

(b) For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator;

(c) For all other tax-exempt entities (including, but not limited to, (1) non-stock, non-profit educational institutions; (2) government-owned or -controlled corporations; and (3) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax;

(d) With respect to tax treaty relief, as required under RMO No. 14-2021, prior to the payment of the interest due, (1) three (3) originals of the BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder or, if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries; (2) one (1) original of the valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws; (3) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Issuer; (4) three (3) originals of the duly notarized, consularized or apostilled (as the case may be), if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of its authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, is/are not doing business in the Philippines to support the applicability of a tax treaty relief; 5) an original or certified true copy of the Certificate of

Entitlement (**COE**) issued by the BIR International Tax Affairs Division (**ITAD**) certifying the Bondholder's entitlement to tax treaty relief in connection with the Fourth Tranche Bonds;[1] and

(6) Any other document that the Bank or PDTC may require from time to time;

(ii) a duly notarized declaration and undertaking, (in the prescribed form) warranting that the Bondholder's tax-exemption certificate or ruling has not been revoked or cancelled and that there are no material changes in character, purpose or method of operation of the Bondholder which are inconsistent with the basis of its income tax exemption, or warranting the Bondholder's entitlement to preferential treaty rates, undertaking to immediately notify the Bank and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges, acknowledging the Bank's discretion to determine the sufficiency of the tax-exemption documents submitted and the applicable withholding tax, and agreeing to indemnify and hold the Bank and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities, or any tax or charge arising from the non- withholding or reduced withholding of the required tax; and

(iii) Such other documentary requirements as may be reasonably required by the Bank or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities.

Following the submission by the Bondholder of the above-mentioned documents in support of the tax benefits or of tax-exempt status claimed by such Bondholder, the Issuer shall make its own determination in each case as to whether, in its sole, prudent and reasonable discretion, such documents sufficiently establish such tax benefit and/or exemption available for any specific payment on the Fourth Tranche Bonds. Unless the Issuer makes such a determination, the Registrar and Paying Agent will be instructed to proceed on the basis that the relevant tax is due on and withhold such tax on payments under the Fourth Tranche Bonds. Any question on such determination shall be referred to the Issuer. Any question on such determination shall be referred to the Issuer.

Transfers taking place in the Register of Bondholders after the Fourth Tranche Bonds are listed in PDEx may be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when allowed under, and are in accordance with the relevant rules, conventions and guidelines of PDEx and PDTC. A selling or purchasing Bondholder claiming tax-exempt status is required to submit the following documents to the Registrar, together with the supporting documents specified under the Master Registry and Paying Agency Agreement upon submission of Account Opening Documents to the Registrar: (i) a written notification of the sale or purchase, including the tax status of the transferor or transferee, as appropriate; and (ii) an indemnity agreement wherein the new Bondholder undertakes to indemnify the Bank for any tax that may later on be assessed on the Bank on account of such transfer.

Value-Added Tax

Gross receipts derived by dealers in securities from the sale of the Fourth Tranche Bonds in the Philippines, equivalent to the gross selling price less the acquisition cost of the Fourth Tranche Bonds sold, shall be subject to value-added tax of 12%.

"Dealer in securities" means a merchant of stock or securities, whether an individual partnership or corporation, with an established place of business, regularly engaged in the purchase of securities and their resale to customers, that is, one who as a merchant buys securities and sells them to customers with a view to the gains and profits that may be derived therefrom.

Gross Receipts Tax

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

[1] The Bondholder shall be responsible for filing a TTRA with the BIR ITAD to prove its entitlement to tax treaty relief, and in relation thereto, the Issuer shall, upon request of the Bondholder, provide the relevant documents which are required to be submitted for purposes of filing a TTRA. For avoidance of doubt, in order for the preferential rate to apply, the Bondholder must submit the COE issued by the BIR and the TRC, together with the Application to Purchase, to the Selling Agents. In order for the Issuer to apply the preferential rate for the succeeding taxable years, the Bondholder must submit an updated TRC before the last day of the first month of the taxable year or at least ten (10) business days before the first interest payment for the taxable year, whichever is earlier. The Issuer shall withhold regular tax rates in its interest payments for the ensuing taxable year if the Bondholder fails to provide the updated TRC within the prescribed deadline.

Maturity period is five years or less	5%
Maturity period is more than five years	1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

Net trading gains realized within the taxable year on the sale or disposition of the Fourth Tranche Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

Sale or other Disposition of the Fourth Tranche Bonds

Income Tax

Bonds that have a maturity period of less than five (5) years, gains realized from the sale, exchange, or retirement of the bonds are subject to income tax.

If the Fourth Tranche Bonds are considered ordinary assets of individual Bondholders, gains from the sale or disposition of such Fourth Tranche Bonds are included in the computation of taxable income, which is subject to the following graduated tax rates for Philippine citizens (whether residents or non-residents), or resident foreign individuals or non-resident aliens engaged in trade or business in the Philippines effective 1 January 2018 until December 31, 2022:

Not over ₱250,000	0%
Over ₱250,000 but not over ₱400,000	20% of the excess over ₱250,000
Over ₱400,000 but not over ₱800,000	₱30,000 + 25% of the excess over ₱400,000
Over ₱800,000 but not over ₱2,000,000	₱130,000 + 30% of the excess over ₱800,000
Over ₱2,000,000 but not over ₱8,000,000	₱490,000 + 32% of the excess over ₱2,000,000
Over ₱8,000,000	₱2,410,000 + 35% of the excess over ₱8,000,000

and effective 2 January 2023 and onwards:

Not over ₱250,000	0%
Over ₱250,000 but not over ₱400,000	15% of the excess over ₱250,000
Over ₱400,000 but not over ₱800,000	₱22,500 + 20% of the excess over ₱400,000
Over ₱800,000 but not over ₱2,000,000	₱102,500 + 25% of the excess over ₱800,000
Over ₱2,000,000 but not over ₱8,000,000	₱402,500 + 30% of the excess over ₱2,000,000
Over ₱8,000,000	₱2,202,500 + 35% of the excess over ₱8,000,000

For non-resident aliens not engaged in trade or business, the gain shall be subject to the 25% final withholding tax.

Capital Gains Tax

If the Fourth Tranche Bonds are considered as capital assets of individual Bondholders, gains from the sale or disposition of such Fourth Tranche Bonds shall be subject to the same rates of income tax as if the Fourth Tranche Bonds were held as ordinary assets, except that if the gain is realized by an individual who held the Fourth Tranche Bonds for a period of more than twelve (12) months prior to the sale, only 50% of the gain will be recognized and included in the computation of taxable income. If the Fourth Tranche Bonds were held by an individual for a period of twelve (12) months or less, 100% of the gain will be included in the computation of the taxable income.

Gains derived by domestic or resident foreign corporations on the sale or other disposition of the Fourth Tranche Bonds are included in the computation of taxable income which is subject to 20% or 25% regular corporate income tax or 1% or 2% MCIT, as the case may be. Gains derived by non-resident foreign corporations on the sale or other disposition of the Fourth Tranche Bonds shall form part of their gross income which is subject to a 25% final withholding tax unless a preferential rate is allowed under a tax treaty subject to such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief. Any gains realized by non-residents on the sale of the Fourth Tranche Bonds may be exempt from Philippine income tax under an applicable tax treaty subject to such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

Estate and Gift Tax

The Fourth Tranche Bonds will be considered as intangible personal property situated in the Philippines and will form part of the gross estate of any individual holder. As such, the transfer of the Fourth Tranche Bonds upon the death of an individual holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at a fixed rate of 6% of the net estate. Estate taxation is governed by the statute in force at the time of the death of the decedent and so the tax rate may vary in the future. Individual and corporate holders, whether or not citizens or residents of the Philippines, who transfer the Fourth Tranche Bonds by way of gift or donation are liable to pay Philippine donors' tax at the fixed rate of 6% based on the total gifts in excess of ₱250,000 exempt gifts made during the calendar year, whether the donor is a stranger or not.

Estate and gift taxes will not be collected in respect of intangible personal property such as the Fourth Tranche Bonds (i) if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (ii) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Taxation outside the Philippines

The tax treatment of a non-resident holder of any of the Fourth Tranche Bonds by jurisdiction outside the Philippines will vary depending on the tax laws applicable to such holder by reason of domicile or business activities and may vary depending upon such holder's situation. Each holder of any of the Fourth Tranche Bonds should consult its own tax adviser as to the particular tax consequences on such holder acquiring, owning and disposing of the Fourth Tranche Bonds, including the applicability and effect of any state, local and national laws.

INDEX TO THE FINANCIAL STATEMENTS

The following pages set forth the BPI's reviewed condensed consolidated financial statements as at 30 September 2021 and for each of the nine months in the periods ended 30 September 2021 and 2020, and its audited consolidated financial statements as at 31 December 2020 and for each of the years in the periods ended 31 December 2020 and 2019.

www.pwc.com/ph

Bank of the Philippine Islands and Subsidiaries

Unaudited Condensed Consolidated Interim Financial Statements
As at and for the nine-month period ended September 30, 2021
(With comparative figures as at December 31, 2020 and for the nine-month period ended September 30, 2020)

pwc

Isla Lipana & Co.

Isla Lipana & Co.

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 September 30, 2021, and the related unaudited condensed consolidated interim statements of income, of total comprehensive income, of changes in capital funds and of cash flows for the nine-month periods ended September 30, 2021 and 2020, 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.

Isla Lipana & Co. is the Philippine member firm of the PwC network. PwC refers to the Philippine member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

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-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
November 17, 2021

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CONDITION
SEPTEMBER 30, 2021
(With Comparative Audited Consolidated December 31, 2020 Figures)
(In Millions of Pesos)

	Notes	**September 30, 2021**	December 31, 2020
ASSETS			
CASH AND OTHER CASH ITEMS	3	**28,549**	37,176
DUE FROM BANGKO SENTRAL NG PILIPINAS	3	**257,305**	223,989
DUE FROM OTHER BANKS	3	**55,381**	40,155
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL, net	3	**39,725**	30,251
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	4	**51,298**	37,210
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	5	**127,056**	130,186
INVESTMENT SECURITIES AT AMORTIZED COST, net	6	**230,231**	244,653
LOANS AND ADVANCES, net	7	**1,387,194**	1,407,413
ASSETS HELD FOR SALE, net		**3,154**	2,971
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	8	**16,995**	18,832
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net		**6,733**	7,510
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS		**18,005**	18,726
DEFERRED INCOME TAX ASSETS, net		**15,927**	17,525
OTHER ASSETS, net		**22,834**	16,846
Total assets		**2,260,387**	2,233,443

(forward)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CONDITION
SEPTEMBER 30, 2021
(With Comparative Audited Consolidated December 31, 2020 Figures)
(In Millions of Pesos)

	Notes	**September 30, 2021**	December 31, 2020
LIABILITIES AND CAPITAL FUNDS			
DEPOSIT LIABILITIES	9	**1,796,966**	1,716,177
DERIVATIVE FINANCIAL LIABILITIES		**4,383**	5,657
BILLS PAYABLE AND OTHER BORROWED FUNDS	10	**93,740**	151,947
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		**1,319**	1,491
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		**7,077**	7,108
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		**7,766**	8,902
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS		**13,112**	14,347
DEFERRED CREDITS AND OTHER LIABILITIES		**42,149**	45,857
Total liabilities		**1,966,512**	1,951,486
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI			
Share capital	11	**45,131**	45,045
Share premium		**74,870**	74,764
Reserves	11	**534**	416
Accumulated other comprehensive loss		**(7,566)**	(5,899)
Surplus		**178,838**	165,509
		291,807	279,835
NON-CONTROLLING INTEREST		**2,068**	2,122
Total capital funds		**293,875**	281,957
Total liabilities and capital funds		**2,260,387**	2,233,443

(The notes on pages 1 to 18 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 NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020
(In Millions of Pesos, Except Per Share Amounts)

	Note	2021	2020 (As restated)
INTEREST INCOME			
On loans and advances		**53,836**	63,271
On investment securities		**7,505**	9,021
On deposits with BSP and other banks		**1,262**	1,456
		62,603	73,748
INTEREST EXPENSE			
On deposits		**7,494**	15,833
On bills payable and other borrowings		**3,941**	3,699
		11,435	19,532
NET INTEREST INCOME		**51,168**	54,216
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	7	**10,251**	20,472
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES		**40,917**	33,744
OTHER INCOME			
Fees and commissions		**13,800**	11,023
Income from foreign exchange trading		**1,565**	1,715
Net gains on disposals of investment securities at amortized cost		**1,499**	4,209
Income attributable to insurance operations		**1,299**	1,199
Trading gain on securities		**257**	2,594
Other operating income		**2,034**	1,251
		20,454	21,991
OTHER EXPENSES			
Compensation and fringe benefits		**13,785**	13,572
Occupancy and equipment-related expenses		**11,522**	10,463
Other operating expenses		**11,183**	11,211
		36,490	35,246
INCOME BEFORE INCOME TAX		**24,881**	20,489
INCOME TAX EXPENSE			
Current		**5,881**	8,502
Deferred		**1,357**	(5,393)
		7,238	3,109
NET INCOME FROM CONTINUING OPERATIONS		**17,643**	17,380
NET LOSS FROM DISCONTINUED OPERATIONS		**-**	(79)
NET INCOME FOR THE PERIOD		**17,643**	17,301

(forward)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020
(In Millions of Pesos, Except Per Share Amounts)

	2021	2020 (As restated)
(forwarded)		
Basic and diluted earnings (loss) per share attributable to the equity holders of BPI during the period from:		
Continuing operations	**3.87**	3.81
Discontinued operations	**-**	(0.01)
Income (loss) attributable to equity holders of BPI arising from:		
Continuing operations	**17,475**	17,212
Discontinued operations	**-**	(40)
	17,475	17,172
Income (loss) attributable to the non-controlling interests arising from:		
Continuing operations	**168**	168
Discontinued operations	**-**	(39)
	168	129
Income attributable to		
Equity holders of BPI	**17,475**	17,172
Non-controlling interests	**168**	129
	17,643	17,301

(The notes on pages 1 to 18 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 TOTAL COMPREHENSIVE INCOME
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020
(In Millions of Pesos)

	2021	2020 (As restated)
NET INCOME FROM CONTINUING OPERATIONS	**17,643**	17,380
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss		
Currency translation and others	**593**	(330)
Fair value reserve on investments of insurance subsidiaries, net of tax effect	**(122)**	196
Share in other comprehensive (loss) income of associates	**(650)**	417
Net change in fair value reserve on investments in debt instruments measured at FVOCI, net of tax effect	**(1,388)**	1,237
Items that will not be reclassified subsequently to profit or loss		
Share in other comprehensive gain (loss) of associates	**285**	(1,035)
Remeasurements of defined benefit obligation	**(423)**	-
Total other comprehensive (loss) income, net of tax effect from continuing operations	**(1,705)**	485
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD FROM CONTINUING OPERATIONS	**15,938**	17,865
NET LOSS FROM DISCONTINUED OPERATIONS	**-**	(79)
Total other comprehensive loss, net of tax effect from discontinued operations	**-**	-
Total comprehensive income for the period from discontinued operations	**-**	(79)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**15,938**	17,786
Total comprehensive income (loss) attributable to equity holders of BPI arising from:		
Continuing operations	**15,808**	17,630
Discontinued operations	**-**	(40)
	15,808	17,590
Total comprehensive income (loss) attributable to the non-controlling interest arising from:		
Continuing operations	**130**	235
Discontinued operations	**-**	(39)
	130	196
Total comprehensive income attributable to:		
Equity holders of BPI	**15,808**	17,590
Non-controlling interests	**130**	196
	15,938	17,786

(The notes on pages 1 to 18 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 NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020
(In Millions of Pesos)

	Attributable to equity holders of BPI (Note 11)							
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive (loss) income	Total	Non-controlling interest	Total equity
Balance, January 1, 2020	**44,999**	**74,449**	**5,108**	**147,460**	**(2,439)**	**269,577**	**3,457**	**273,034**
Comprehensive income								
Net income for the period	-	-	-	17,172	-	17,172	129	17,301
Other comprehensive income for the period	-	-	-	-	418	418	67	485
Total comprehensive income for the period	-	-	-	**17,172**	**418**	**17,590**	**196**	**17,786**
Transactions with owners								
Executive stock plan amortization	34	230	36	-	-	300	-	300
Cash dividends	-	-	-	(4,062)	-	(4,062)	-	(4,062)
Total transactions with owners	**34**	**230**	**36**	**(4,062)**	**-**	**(3,762)**	**-**	**(3,762)**
Other movements	**-**	**-**	**-**	**25**	**9**	**34**	**-**	**34**
Balance, September 30, 2020	**45,033**	**74,679**	**5,144**	**160,595**	**(2,012)**	**283,439**	**3,653**	**287,092**
Balance, December 31, 2020	**45,045**	**74,764**	**416**	**165,509**	**(5,899)**	**279,835**	**2,122**	**281,957**
Comprehensive income								
Net income for the period	-	-	-	17,475	-	17,475	168	17,643
Other comprehensive loss for the period	-	-	-	-	(1,667)	(1,667)	(38)	(1,705)
Total comprehensive income (loss) for the period	-	-	-	**17,475**	**(1,667)**	**15,808**	**130**	**15,938**
Transactions with owners								
Executive stock plan amortization	86	106	34	-	-	226	-	226
Cash dividends	-	-	-	(4,062)	-	(4,062)	(184)	(4,246)
Total transactions with owners	**86**	**106**	**34**	**(4,062)**	**-**	**(3,836)**	**(184)**	**(4,020)**
Other movements	-	-	84	(84)	-	-	-	-
Balance, September 30, 2021	**45,131**	**74,870**	**534**	**178,838**	**(7,566)**	**291,807**	**2,068**	**293,875**

(The notes on pages 1 to 18 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 NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020
(In Millions of Pesos)

	Note	**2021**	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax from:			
Continuing operations		**24,881**	20,489
Discontinued operations		**-**	(157)
		24,881	20,332
Adjustments for:			
Provision for credit and impairment losses	7	**10,251**	21,062
Depreciation and amortization		**4,522**	5,453
Share in net income of associates		**(745)**	(560)
Dividend income		**(4)**	(37)
Share based compensation		**34**	36
Interest income		**(62,603)**	(74,363)
Interest received		**64,752**	78,157
Interest expense		**11,666**	20,266
Interest paid		**(12,212)**	(21,537)
(Increase) decrease in:			
Interbank loans and receivable and securities purchased under agreement to resell		**1,396**	1,078
Financial assets at fair value through profit or loss		**(13,799)**	(6,705)
Loans and advances		**9,053**	70,353
Assets held for sale		**(280)**	207
Assets attributable to insurance operations		**1,130**	523
Other assets		**(6,897)**	(8,567)
Increase (decrease) in:			
Deposit liabilities		**80,789**	(10,607)
Due to Bangko Sentral ng Pilipinas and other banks		**(186)**	(1,128)
Manager's checks and demand drafts outstanding		**(31)**	(2,353)
Accrued taxes, interest and other expenses		**2,192**	148
Liabilities attributable to insurance operations		**(1,420)**	(783)
Derivative financial instruments		**(1,273)**	199
Deferred credits and other liabilities		**(3,038)**	(5,907)
Net cash generated from operations		**108,178**	85,267
Income taxes paid		**(8,423)**	(8,411)
Net cash from operating activities		**99,755**	76,856

(forward)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020
(In Millions of Pesos)

	Notes	**2021**	2020
(forwarded)			
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase) decrease in:			
Investment securities		**15,501**	(50,647)
Bank premises, furniture, fixtures and equipment		**(2,564)**	(3,449)
Investment properties, net		**3**	(2)
Investment in subsidiaries and associates, net		**1,522**	878
Assets attributable to insurance operations		**(257)**	(174)
Dividends received		**4**	37
Net cash from (used in) investing activities		**14,209**	(53,357)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends	11	**(4,062)**	(4,062)
Issuance of shares via exercise of stock options		**192**	263
Decrease in bills payable and other borrowed funds		**(58,207)**	3,670
Payments for principal portion of lease liabilities		**(1,228)**	(938)
Net cash used in financing activities		**(63,305)**	(1,067)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**50,659**	22,432
CASH AND CASH EQUIVALENTS			
Beginning of period		**330,586**	299,068
End of period	3	**381,245**	321,500
Cash flows from discontinued operations	2		

(The notes on pages 1 to 18 are an integral part of these unaudited condensed consolidated interim financial statements.)

BANK OF THE PHILIPPINE ISLANDS AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2021
(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 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. BPI has its registered office address, which also serves as 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 September 30, 2021, the BPI Group has 19,376 employees (September 30, 2020 - 20,329 employees) and operates 1,176 branches and 2,503 automated teller machines (ATMs) and cash accept machines (CAMs) (September 30, 2020 - 1,169 branches and 2,735 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 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. As at September 30, 2021, the Parent Bank has 12,158 common shareholders (September 2020 - 12,325).

Coronavirus pandemic

The coronavirus disease (COVID-19) continues to pose a challenge to the Bank, insofar as ensuring personnel health and safety, and in continuing operations with a significant portion of the workforce on work-from-home arrangements. Nevertheless, the Bank's strategic initiatives on digitalization, improvements on IT infrastructure and cybersecurity technology, and availability of business recovery sites enabled the continued delivery of the Bank's products and services to its customers. The Bank remains operational as it implemented split operations to ensure containment in the event of infection; identification of skeletal workforce, activation of alternate work sites and/or mobility areas to improve accessibility of the Bank's employees to office premises, adjustment of working hours and work-from home arrangements. The Bank had also launched the mobility program for certain employees equipped with adequate tools to allow work outside of Bank premises. These allowed the Bank to lessen the density in the corporate offices and fully comply with the employee/social distancing rules.

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 became more pronounced in the early quarters of 2021 considering the effect of Bayanihan Act II relief measures. While additional expenses are continuously incurred due to the COVID-19 situation, the Bank is sufficiently capitalized and has more than adequate cushion for operational risk events.

Approval and authorization for issuance of financial statements

The condensed consolidated interim financial statements have been approved by the Board of Directors (BOD) of the Parent Bank on November 17, 2021.

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

Note 2 - Segment Information; Discontinued Operations

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 Standard (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 to 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. Further details of segment reporting are disclosed in the annual audited consolidated financial statements of the BPI Group as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020.

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 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.

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, provision for credit and impairment losses, fees, commissions and other income, net 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 Century Tokyo Lease and Finance Corporation (BPI CTL) effective December 23, 2020, the BPI Group's segment reporting was updated to exclude the contribution of BPI CTL. Consequently, the segment results of operations for 2020 were restated. The segment assets and liabilities as at September 30, 2021 and December 31, 2020 and results of operations of the reportable segments of the BPI Group as at and for the nine-month periods ended September 30, 2021 and 2020 follow:

	September 30, 2021			
	Consumer banking	**Corporate banking**	**Investment banking**	**Total per management reporting**
Net interest income	27,223	20,797	5,884	**53,904**
Provision for credit and impairment losses	897	9,400	(45)	**10,252**
Net interest income after provision for credit and impairment losses	26,326	11,397	5,929	**43,652**
Fees, commissions and other income, net	11,383	1,978	5,976	**19,337**
Total income	37,709	13,375	11,905	**62,989**
Compensation and fringe benefits	10,462	1,686	764	**12,912**
Occupancy and equipment-related expenses	4,567	71	269	**4,907**
Other operating expenses	14,063	2,187	1,115	**17,365**
Total operating expenses	29,092	3,944	2,148	**35,184**
Operating profit	8,617	9,431	9,757	**27,805**
Income tax expense				**7,238**
Net income				**17,643**
Share in net income of associates				**763**
Total assets September 30, 2021	471,463	1,117,488	625,106	**2,214,057**
Total liabilities September 30, 2021	1,258,937	581,734	101,361	**1,942,032**

	September 30, 2020 (As restated)			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
Net interest income	32,917	18,401	5,467	56,785
Provision for credit and impairment losses	6,721	13,547	189	20,457
Net interest income after provision for credit and impairment losses	26,196	4,854	5,278	36,328
Fees, commissions and other income, net	8,777	1,530	10,566	20,873
Total income	34,973	6,384	15,844	57,201
Compensation and fringe benefits	11,300	1,997	780	14,077
Occupancy and equipment-related expenses	6,910	446	238	7,594
Other operating expenses	11,751	2,461	1,197	15,409
Total operating expenses	29,961	4,904	2,215	37,080
Operating profit	5,012	1,480	13,629	20,121
Income tax expense				3,109
Net income from				
Continuing operations				17,380
Discontinued operations				(79)
Share in net income of associates				478
Total assets December 31, 2020	478,439	1,129,281	578,047	2,185,767
Total liabilities December 31, 2020	1,251,744	511,995	162,255	1,925,994

Reconciliation of segment results to consolidated results of operations:

	September 30, 2021		
	Total per management reporting	**Consolidation adjustments/ Others**	**Total per consolidated financial statements**
Net interest income	**53,904**	(2,736)	**51,168**
Provision for credit and impairment losses	**10,252**	(1)	**10,251**
Net interest income after provision for credit and impairment losses	**43,652**	(2,735)	**40,917**
Fees, commissions and other income, net	**19,337**	1,117	**20,454**
Total income	**62,989**	(1,618)	**61,371**
Compensation and fringe benefits	**12,912**	873	**13,785**
Occupancy and equipment-related expenses	**4,907**	6,615	**11,522**
Other operating expenses	**17,365**	(6,182)	**11,183**
Total operating expenses	**35,184**	1,306	**36,490**
Operating profit	**27,805**	(2,924)	**24,881**
Income tax expense			**7,238**
Net income			**17,643**
Share in net income of associates			**763**
Total assets September 30, 2021	**2,214,057**	46,330	**2,260,387**
Total liabilities September 30, 2021	**1,942,032**	24,480	**1,966,512**

	September 30, 2020 (As restated)		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
Net interest income	56,785	(2,569)	54,216
Provision for credit and impairment losses	20,457	15	20,472
Net interest income after provision for credit and impairment losses	36,328	(2,584)	33,744
Fees, commissions and other income, net	20,873	1,118	21,991
Total income	57,201	(1,466)	55,735
Compensation and fringe benefits	14,077	(505)	13,572
Occupancy and equipment-related expenses	7,594	2,869	10,463
Other operating expenses	15,409	(4,198)	11,211
Total operating expenses	37,080	(1,834)	35,246
Operating profit	20,121	368	20,489
Income tax expense			3,109
Net income from			
Continuing operations			17,380
Discontinued operations			(79)
Share in net income of associates			478
Total assets December 31, 2020	2,185,767	47,676	2,233,443
Total liabilities December 31, 2020	1,925,994	25,492	1,951,486

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

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 Tokyo Century Corporation (TCC) resulting in a 49% and 51% ownership structure between BPI and TCC, respectively.

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 nine-month period ended September 30, 2020.

	Amount
INTEREST INCOME	
On loans and advances	614
On deposits with BSP and other banks	1
	615
INTEREST EXPENSE	
On bills payable and other borrowed funds	434
NET INTEREST INCOME	181
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	590
NET INTEREST EXPENSE AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	(409)
OTHER INCOME	
Fees, commissions, and other operating income	1,441
Income from foreign exchange trading	47
	1,488
OTHER EXPENSES	
Compensation and fringe benefits	95
Occupancy and equipment-related expenses	1,063
Other operating expenses	78
	1,236
LOSS BEFORE INCOME TAX	(157)
INCOME TAX EXPENSE	
Current	97
Deferred	(175)
	(78)
NET LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX	(79)

	Amount
Net cash flows used in operating activities	(8,614)
Net cash flows used in investing activities	(1,599)
Net cash flows from financing activities	10,140
Net decrease in cash flows from discontinued operations	(73)

<u>Note 3 - Cash and Cash Equivalents</u>

Cash and cash equivalents consist of:

	September 30, 2021	December 31, 2020
Cash and other cash items	**28,549**	37,176
Due from BSP	**257,305**	223,989
Due from other banks	**55,381**	40,155
Interbank loans receivable and securities purchased under agreements to resell (SPAR), net	**39,536**	28,945
Cash and cash equivalents attributable to insurance operations	**474**	321
	381,245	330,586

Due from BSP and interbank loans receivable and SPAR, net, increased by P33,316 million and P10,591 million, respectively, on account of higher volume of placements in BSP deposits and Reverse Repurchase Agreements (RRP).

As at September 30, 2021, Interbank loans receivable and SPAR amounts P39,725 million (December 31, 2020 - P30,251 million), of which P39,536 million (December 31, 2020 - P28,945 million) are expected to mature within 90 days from the date of acquisition and are classified as cash equivalents for purposes of cash flow presentation.

Likewise, the allowance for impairment of Interbank loans receivable and SPAR as at September 30, 2021 and December 31, 2020 amounts to P41 million (Note 7).

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

	September 30, 2021	September 30, 2020
Cash and other cash items	**28,549**	26,904
Due from BSP	**257,305**	238,695
Due from other banks	**55,381**	22,017
Interbank loans receivable and SPAR, net	**39,536**	33,093
Cash and cash equivalents attributable to insurance operations	**474**	791
	381,245	321,500

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

The account consists of:

	September 30, 2021	December 31, 2020
Debt securities		
Government securities	**43,673**	29,942
Commercial papers of private companies	**2,920**	2,410
Equity securities - listed	**229**	70
Derivative financial assets	**4,476**	4,788
	51,298	37,210

The increase in the account is a result of the BPI Group's strategy in managing excess liquidity by reinvesting funds into highly-liquid securities such as government securities.

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 decrease in derivative financial assets is due to lower volume of transactions and settlements for the nine-month period ended September 30, 2021.

The Parent Bank was granted a Type 1 Derivative License by the BSP allowing it to issue options and hedged investments, among others. As at September 30, 2021, the Bank has existing derivative assets with a notional amount of P487 million under such license.

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

The account consists of:

	September 30, 2021	December 31, 2020
Debt securities		
Government securities	**110,319**	100,063
Commercial papers of private companies	**12,752**	26,092
	123,071	126,155
Accrued interest receivable	**496**	696
	123,567	126,851
Equity securities		
Listed	**2,197**	1,784
Unlisted	**1,292**	1,551
	3,489	3,335
	127,056	130,186

The movement in the account is largely driven by the decrease in fair value primarily of commercial papers of private companies due to the increasing interest rate environment despite the BPI Group's strategy to increase the volume of investments in government securities to maximize liquidity.

Note 6 - Investment Securities at Amortized Cost, net

The account consists of:

	Note	September 30, 2021	December 31, 2020
Government securities		**196,340**	166,907
Commercial papers of private companies		**31,907**	75,411
		228,247	242,318
Accrued interest receivable		**1,994**	2,348
		230,241	244,666
Allowance for credit losses	7	**(10)**	(13)
		230,231	244,653

The decrease in the account is caused by significant amount of maturities and disposals primarily of commercial papers of private companies during the period.

Note 7 - Loans and Advances, net

The account consists of:

	September 30, 2021	December 31, 2020
Corporate loans		
Large corporate customers	**1,092,266**	1,112,069
Small and medium enterprise (SME)	**62,961**	66,869
Retail loans		
Credit cards	**70,444**	68,057
Real estate mortgages	**150,941**	140,552
Auto loans	**50,185**	51,045
Others	**11,495**	11,616
	1,438,292	1,450,208
Accrued interest receivable	**7,485**	8,976
Unearned discount/income	**(5,320)**	(5,013)
	1,440,457	1,454,171
Allowance for credit losses	**(53,263)**	(46,758)
	1,387,194	1,407,413

As at September 30, 2021 and December 31, 2020, the BPI Group has no outstanding loans and advances used as security for bills payable (Note 10).

Loans and advances include amounts due from related parties (Note 14).

The decline in loans and advances is due to the softer demand and lower volume of transactions in corporate, SME and auto loans.

The movements in allowance for credit losses are summarized below:

	September 30, 2021	December 31, 2020
Beginning balance	**46,758**	25,361
Provision for credit losses	**9,743**	26,994
Transfers	**(167)**	(289)
Write-offs	**(3,065)**	(5,292)
Accretion/Unwinding of discount	**(6)**	(16)
Ending balance	**53,263**	46,758

Provision for (reversal of) credit and impairment losses

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

	Notes	**September 30, 2021**	September 30, 2020 (As restated)
Loans and advances		**9,743**	19,553
Assets held for sale		**97**	(93)
Interbank loans receivable and SPAR	3	**-**	1
Investment securities at amortized cost	6	**(3)**	6
Undrawn loan commitments		**(88)**	392
Other assets		**502**	613
		10,251	20,472

The expected credit loss allowance related to undrawn loan commitments is recognized as part of "Deferred credits and other liabilities".

Provision for credit and impairment losses recognized during the nine-month period ended September 30, 2021 is attributable mainly to lower collective provisions on account of improved macroeconomic environment.

Note 8 - Bank Premises, Furniture, Fixtures and Equipment, net

Movements in the account are summarized as follows:

	September 30, 2021			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
Cost				
January 1, 2021	3,013	24,305	17,038	**44,356**
Additions	-	861	1,224	**2,085**
Disposals	-	(6)	(1,441)	**(1,447)**
Other changes	1	(80)	(1)	**(80)**
September 30, 2021	3,014	25,080	16,820	**44,914**
Accumulated depreciation				
January 1, 2021	-	11,084	14,440	**25,524**
Depreciation and amortization	-	2,114	1,033	**3,147**
Disposals	-	(2)	(745)	**(747)**
Other changes	-	(4)	(1)	**(5)**
September 30, 2021	-	13,192	14,727	**27,919**
Net book value, September 30, 2021	**3,014**	**11,888**	**2,093**	**16,995**

	December 31, 2020				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
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	-	(2)	(25)	(6,348)	(6,375)
Other changes	-	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	-	(8)	(11)	(2,600)	(2,619)
Other changes	-	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

As at September 30, 2021, the BPI Group has recognized construction-in-progress amounting to P402 million in relation to the redevelopment of its main office. This is recorded as part of "Buildings and leasehold improvements" category in the table above.

Other changes pertain to additions and remeasurement of right-of-use assets due to renewal of lease agreements, extension of lease terms and deferral of escalation clause on existing lease contracts.

Note 9 - Deposit Liabilities

Deposit liabilities consist of:

	September 30, 2021	December 31, 2020
Demand	**354,226**	314,853
Savings	**1,085,997**	1,051,069
Time	**356,743**	350,255
	1,796,966	1,716,177

Deposit liabilities increased mainly due to the growth in savings and demand deposits for the period.

Note 10 - Bills Payable and Other Borrowed Funds

The account consists of:

	September 30, 2021	December 31, 2020
Bills payable		
Foreign banks	**1,679**	18,190
Local banks	**-**	5,406
Other borrowed funds	**92,061**	128,351
	93,740	151,947

The reduction in bills payable and other borrowed funds is primarily due to settlement of short-term interbank borrowings which were not renewed upon maturities and the maturities of certain bonds issued by the Parent Bank.

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.

Other borrowed funds

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

a) Peso Bond and Commercial Paper Program

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

Description of instrument	Date of drawdown	Interest rate	Maturity	Face amount	Carrying amount September 30, 2021	Carrying amount December 31, 2020
Fixed rate bonds, unconditional, unsecured and unsubordinated bonds	January 24, 2020	4.24%	January 24, 2022	15,328	15,312	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	21,434	21,391

Likewise, on October 31, 2019, the BOD of BPI Family Savings Bank (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 P9,574 million as at September 30, 2021 (December 31, 2020 - P9,545 million).

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

b) Medium-Term Note (MTN) Program

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

Description of instrument	Date of drawdown	Interest rate	Maturity	Face amount	Carrying amount September 30, 2021	Carrying amount December 31, 2020
US$ 600 million, 5-year senior unsecured Bonds	September 4, 2018	4.25%	September 4, 2023	32,000	30,507	28,695
US$ 300 million, 5-year senior unsecured Green Bonds	September 10, 2019	2.50%	September 10, 2024	15,572	15,234	14,330
CHF 100 million, 2-year senior unsecured Green Bonds	September 24, 2019	-	September 24, 2021	5,250	-	5,415

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

Note 11 - Capital Funds

(a) Share capital

Details of authorized share capital of the Parent Bank follow:

	September 30, 2021	December 31, 2020
Authorized capital (at P10 par value per share)		
Common shares	**49,000**	49,000
Preferred A shares	**600**	600
	49,600	49,600

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

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

	September 30, 2021	December 31, 2020
	(In absolute number of shares)	
Common shares		
At January 1	**4,513,101,605**	4,507,071,644
Subscription of shares during the year	**26,650**	6,029,961
	4,513,128,255	4,513,101,605
	In absolute amounts	
Subscription receivable	**-**	85,612,950

There are no preferred shares issued as at September 30, 2021 and December 31, 2020.

(b) Reserves

The account consists of:

	September 30, 2021	December 31, 2020
Reserve for trust business	**283**	199
Executive stock option plan amortization	**217**	183
Reserve for self-insurance	**34**	34
	534	416

In compliance with existing BSP regulations, 10% of the BPI Asset Management and Trust Corporation's (AMTC) income from trust business is appropriated to surplus reserve. This appropriation is required until the surplus reserve for trust business reaches 20% of the BPI AMTC's regulatory net worth.

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

Under the BSP Circular 1011 (the "Circular"), banks are required to set up general loan loss provision (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. As at September 30, 2021 and December 31, 2020, the GLLP appropriation is nil as the loan loss provision for both periods are higher than the required GLLP.

(c) Dividend declarations

Details of cash dividends declared by the Parent Bank follow:

	Amount of Dividends	
Date Declared	Per Share	Amounts in millions of Pesos
May 20, 2020	0.90	4,062
October 21, 2020	0.90	4,062
May 28, 2021	0.90	4,062

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

Note 12 - Taxation

Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

On March 26, 2021, (Republic Act No. 11534), otherwise known as CREATE, was signed into law. Among the salient provisions of CREATE include changes to the Corporate Income Tax (CIT) rates as follows:

1. Domestic Corporations with assets above P100,000,000 or those with taxable income amounting to more than P5,000,000 will be subjected to a 25% tax rate effective July 1, 2020.
2. Effective July 1, 2020 until June 30, 2023, the minimum corporate income tax (MCIT) rate shall be one percent (1%).

As a result of the CREATE law, the BPI Group recognized an adjustment in 2021 pertaining to the December 31, 2020 balances which resulted in a decrease of P819 million in current income tax expense and an increase of P2,718 million in deferred income tax expense using the weighted average effective annual income tax rate of 27.5%.

Beginning January 1, 2021, the BPI Group applied 25% tax rate (2020 - 30%) for current income tax and deferred income tax balances and 26.5% tax rate (2020 - 33%) on interest arbitrage.

Note 13 - 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 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.

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 14 - Related Party Transactions

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

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

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

	September 30, 2021	December 31, 2020
	(In Millions of Pesos)	
Outstanding DOSRI loans	**19,442**	15,675
	In percentage (%)	
% to total outstanding loans and advances	**1.36**	1.08
% to total outstanding DOSRI loans		
Unsecured DOSRI loans	**2.51**	3.20
Past due DOSRI loans	**0.01**	0.00
Non-performing DOSRI loans	**0.01**	0.00

At September 30, 2021 and December 31, 2020, the BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans.

Note 15 - Other Disclosures

Update on the BPI and BFB merger

The BOD of the Parent Bank had approved on January 21, 2021 the plan to merge with BFB, its wholly owned thrift bank subsidiary, with BPI as the surviving entity. Subsequently, the Philippine Competition Commission, in its letter dated May 25, 2021, indicated that the BPI and BFB merger is exempt from compulsory notification. Moreover, the Philippine Deposit Insurance Corporation (PDIC), in its letter dated July 6, 2021, has also granted its consent to the proposed merger subject to certain conditions. The BSP, in its letter to BPI dated October 4, 2021, indicated that the Monetary Board of the BSP approved the proposed merger on September 30, 2021. The Bank is currently awaiting other regulatory approvals.

Regulatory Treatment of Restructured Loans for Purposes of Measuring Expected Credit Losses (ECL)

On October 14, 2021, the Monetary Board approved the guidelines on BSP Memorandum No. M-2021-056 or the Regulatory Treatment of Restructured Loans for Purposes of Measuring ECL amid the pandemic. BSP-Supervised Financial Institutions (BSFIs) are expected to take a more flexible and systematic approach in modifying terms and conditions of loan agreements of borrowers significantly affected by the pandemic. Loan modification should be targeted at providing sustainable support measures to creditworthy borrowers experiencing financial difficulty to help promote overall loan quality and contribute to broader economic recovery. In this respect, BSFIs should establish prudent criteria in assessing and modifying the loan terms and conditions.

The classification of modified loans under Stage 1, 2, or 3 for purposes of determining the ECL shall be based on the assessment of the extent of financial difficulty of the borrowers and their ability to fully pay the loan based on the revised terms.

The guidelines on the regulatory treatment of restructured loans for purposes of measuring expected credit losses shall be effective until December 31, 2022. The BPI Group is in the process of evaluating the impact of the regulatory reprieve to the Bank's loan portfolio.

Note 16 - 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, 2020.

Note 17 - 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 of the financial instruments since the last annual financial report.

a. Fair value hierarchy

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

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

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

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The BPI Group considers relevant and observable market prices in its valuations where possible. The BPI Group has no assets or liabilities classified under Level 3 as at and for the periods ended September 30, 2021 and December 31, 2020.

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:

September 30, 2021	Carrying Amount	Fair value Level 1	Level 2	Total
Recurring measurements				
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	4,476	-	4,476	**4,476**
Trading assets				
- Debt securities	46,593	43,949	2,644	**46,593**
- Equity securities	229	229	-	**229**
Financial assets at FVOCI				
- Debt securities	123,567	123,567	-	**123,567**
- Equity securities	3,489	2,197	1,292	**3,489**
	178,354	169,942	8,412	**178,354**
Financial liability				
Derivative financial liabilities	4,383	-	4,383	**4,383**
Non-recurring measurements				
Assets held for sale, net	3,154	-	10,533	**10,533**

December 31, 2020	Carrying Amount	Fair value Level 1	Level 2	Total
Recurring measurements:				
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 liability				
Derivative financial liabilities	5,657	-	5,657	**5,657**
Non-recurring measurements				
Assets held for sale, net	2,971	-	9,494	**9,494**

There were no transfers between Level 1 and Level 2 during the periods ended September 30, 2021 and December 31, 2020.

b. Valuation techniques used to derive Level 2 fair values

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

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

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

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

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

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

	September 30, 2021		December 31, 2021	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Investment securities at amortized cost, net	**230,231**	**235,596**	244,653	253,097
Loans and advances, net	**1,387,194**	**1,421,643**	1,407,413	1,511,405
Financial liabilities				
Deposit liabilities	**1,796,966**	**1,789,498**	1,716,177	1,708,322

Note 18 - Basis of Preparation

These unaudited condensed consolidated interim financial statements as at and for the nine-month period ended September 30, 2021 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, 2020, which have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

(a) Amendments to existing standards adopted by the BPI Group

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

- Amendment to PFRS 16, *'Leases'*

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

  As at September 30, 2021, the Bank recognized a lease concession adjustment to reflect the amendments made to the existing lease contracts following the reliefs provided by the Bank's lessors due to the COVID-19 pandemic. The lease concession adjustment is deemed immaterial for financial reporting purposes.

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

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

  The key reliefs provided by the amendments are as follows:

  - Changes to contractual cash flows. When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes that are required by an interest rate benchmark reform (that is, are necessary as a direct consequence of IBOR reform and are economically equivalent) will not result in an immediate gain or loss in the income statement.

  - Hedge accounting. The hedge accounting reliefs will allow most PFRS 9 hedge relationships that are directly affected by IBOR reform to continue (Note 19). However, additional ineffectiveness might need to be recorded.

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

(b) New standard and amendments to existing standards not yet adopted

The BPI Group has not elected to early adopt the new accounting standard, PFRS 17, '*Insurance Contracts',* for the September 30, 2021 reporting period. PFRS 17 is mandatorily effective for periods beginning on or after January 1, 2025.

The BPI Group is assessing the quantitative impact of PFRS 17 as at reporting date.

Likewise, the following amendments to existing standards are not mandatory for the September 30, 2021 reporting period and have not been early adopted by the BPI Group:

- Amendments to PAS 1, *'Presentation of Financial Statements'* (effective beginning January 1, 2023)
- Amendments to PAS 16, *'Property, Plant and Equipment'* (effective beginning January 1, 2022)
- Amendments to PFRS 3, *'Business Combinations'* (effective beginning January 1, 2022)
- PAS 37, *'Provisions, Contingent Liabilities and Contingent Assets'* (effective beginning January 1, 2022)
- Annual Improvements to PFRS Standards 2018-2020 (effective beginning January 1, 2022)

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

The details of the above new accounting standards and amendments to existing standards are disclosed in the annual audited consolidated financial statements of the BPI Group for the year ended December 31, 2020.

Note 19 - Changes in Accounting Policies

This note presents the impact of the 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'* applied from January 1, 2021 as issued in August 2020.

Hedge relationships

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

The 'Phase 1' amendments provided temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs had the effect that IBOR reform should not generally cause hedge accounting to terminate prior to contracts being amended. However, any hedge ineffectiveness is continued to be recorded in the statement of income. Furthermore, the amendments set out triggers for when the reliefs would end, which included the uncertainty arising from interest rate benchmark reform no longer being present. The BPI Group has not adopted any hedge accounting reliefs provided by 'Phase 1' in 2020 as the sole cash flow hedge held was not IBOR-based (Note 10).

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

- Hedge designation: When the phase 1 amendments cease to apply, the BPI Group will amend its hedge designation to reflect changes which are required by IBOR reform, but only to make one or more of these changes:
    - designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;
    - amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or
    - amending the description of the hedging instrument. The BPI Group will update its hedge documentation to reflect this change in designation by the end of the reporting period in which the changes are made. These amendments to the hedge documentation do not require the Group to discontinue its hedge relationships.

- Hedges of groups of items: When amending hedges for groups of items (such as the fair value hedge of interest rate risk within the mortgage portfolio) for IBOR reform, hedged items are allocated to sub-groups within that hedge designation, based on the benchmark rate being hedged for that subgroup (for example, a GBP LIBOR sub-group and a SONIA sub-group within the fair value hedge of the mortgage portfolio). The benchmark rate for each sub-group is designated as the hedged risk.

- Risk components: The BPI Group is permitted to designate an alternative benchmark rate as a noncontractually specified risk component, even if it is not separately identifiable at the date when it is designated, provided that the BPI Group reasonably expects that it will meet the requirements within 24 months of the first designation and the risk component is reliably measurable. The 24-month period applies separately to each alternative benchmark rate which the BPI Group might designate.

For the nine-month period ended September 30, 2021, the BPI Group has not adopted any hedge accounting reliefs provided by 'Phase 2' of the amendments since there are no outstanding hedging relationships for the period then ended.

Financial instruments measured using amortized cost measurement

'Phase 2' of the amendments requires that, for financial instruments measured using amortized cost measurement (that is, financial instruments classified as amortized cost and debt financial assets classified as FVOCI), changes to the basis for determining the contractual cash flows required by interest rate benchmark reform are reflected by adjusting their effective interest rate. No immediate gain or loss is recognized. A similar practical expedient exists for lease liabilities (see below). These expedients are only applicable to changes that are required by interest rate benchmark reform, which is the case if, and only if, the change is necessary as a direct consequence of interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis (that is, the basis immediately preceding the change).

Where some or all of a change in the basis for determining the contractual cash flows of a financial asset and liability does not meet the above criteria, the above practical expedient is first applied to the changes required by interest rate benchmark reform, including updating the instrument's effective interest rate. Any additional changes are accounted for in the normal way (that is, assessed for modification or derecognition, with the resulting modification gain/loss recognized immediately in profit or loss where the instrument is not derecognized).

For lease liabilities where there is a change to the basis for determining the contractual cash flows, as a practical expedient the lease liability is remeasured by discounting the revised lease payments using a discount rate that reflects the change in the interest rate where the change is required by IBOR reform. If lease modifications are made in addition to those required by IBOR reform, the normal requirements of PFRS 16 are applied to the entire lease modification, including those changes required by IBOR reform.

For the nine-month period ended September 30, 2021, the BPI Group has applied the practical expedients offered under 'Phase 2' of the amendments over its financial assets measured at amortized cost and its financial impact is assessed to be not significant.

Effect of IBOR reform

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

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

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

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

As at September 30, 2021, the BPI Group is in the process of assessing SOFR and SONIA as the possible replacement rates for USD and GBP LIBOR, respectively, while the remaining exposure on EUR LIBOR is expected to mature prior to the cessation of the related benchmark rate.

The following table contains details of all financial instruments that BPI Group holds which reference LIBOR as at September 30, 2021:

			Of which: have been reference to a currency LIBOR*									
	Carrying Value		USD Libor		PHIREF		EUR Libor		GBP Libor		Total	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Non-derivative assets and liabilities												
Measured at amortized cost												
Cash and other cash items	28,549	-	-	-	-	-	-	-	-	-	-	-
Due from BSP	257,305	-	-	-	-	-	-	-	-	-	-	-
Due from other banks	55,381	-	-	-	-	-	-	-	-	-	-	-
Interbank loans receivable and SPAR	39,725	-	-	-	-	-	-	-	-	-	-	-
Investment securities at amortized cost	230,231	-	4,421	-	-	-	-	-	-	-	4,421	-
Loans and advances, net	1,387,194	-	74,925	-	-	-	-	-	2,059	-	76,984	-
Other financial assets	12,282	-	-	-	-	-	-	-	-	-	-	-
Deposit liabilities	-	1,796,966	-	1,127	-	-	-	-	-	-	-	1,127
Bills payable and other borrowed funds	-	93,740	-	-	-	-	-	-	-	-	-	-
Due to BSP and other banks	-	1,319	-	-	-	-	-	-	-	-	-	-
Manager's checks and demand drafts outstanding	-	7,077	-	-	-	-	-	-	-	-	-	-
Lease liabilities	-	7,141	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	-	9,386	-	-	-	-	-	-	-	-	-	-
	2,010,667	1,915,629	79,346	1,127	-	-	-	-	2,059	-	81,405	1,127
Measured at fair value												
Financial assets at FVTPL	46,593	-	-	-	-	-	-	-	-	-	-	-
Financial assets at FVOCI	123,567	-	-	-	-	-	-	-	-	-	-	-
	170,160	-	-	-	-	-	-	-	-	-	-	-
Total carrying value of non-derivative assets and liabilities	2,180,827	1,915,629	79,346	1,127	-	-	-	-	2,059	-	81,405	1,127
Derivative assets and liabilities	4,476	4,383	152,521	-	9,200	-	1,184	-	6,169	-	169,074	-
Total carrying value of assets and liabilities exposed	2,185,303	1,920,012	231,867	1,127	9,200	-	1,184	-	8,228	-	250,479	1,127

**Based on the notional amounts of their related contracts* 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.

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.

Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines
T: +63 (2) 8845 2728, F: +63 (2) 8845 2806, www.pwc.com/ph

Isla Lipana & Co. is the Philippine member firm of the PwC network. PwC refers to the Philippine member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

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.

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 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

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. is the Philippine member firm of the PwC network. PwC refers to the Philippine member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

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

Isla Lipana & Co. is the Philippine member firm of the PwC network. PwC refers to the Philippine member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

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**	16,364
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 2020	Consolidated 2019	Parent 2020	Parent 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	7,826	**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	(621)	**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)	**36,369**	(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)

		Consolidated			Parent		
	Notes	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)	63,384	**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	**76,585**
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:

	Notes	Consolidated		Parent	
		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:

		Consolidated		Parent	
	Note	**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:

		Consolidated		Parent	
	Note	**2020**	2019	**2020**	2019
			(In Millions of Pesos)		
At January 1		**150,837**	166,901	**126,529**	150,880
Additions		**233,563**	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:

		Consolidated		Parent	
	Notes	**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:
  i. PFRS 9, *'Financial Instruments'*, clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
  ii. 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

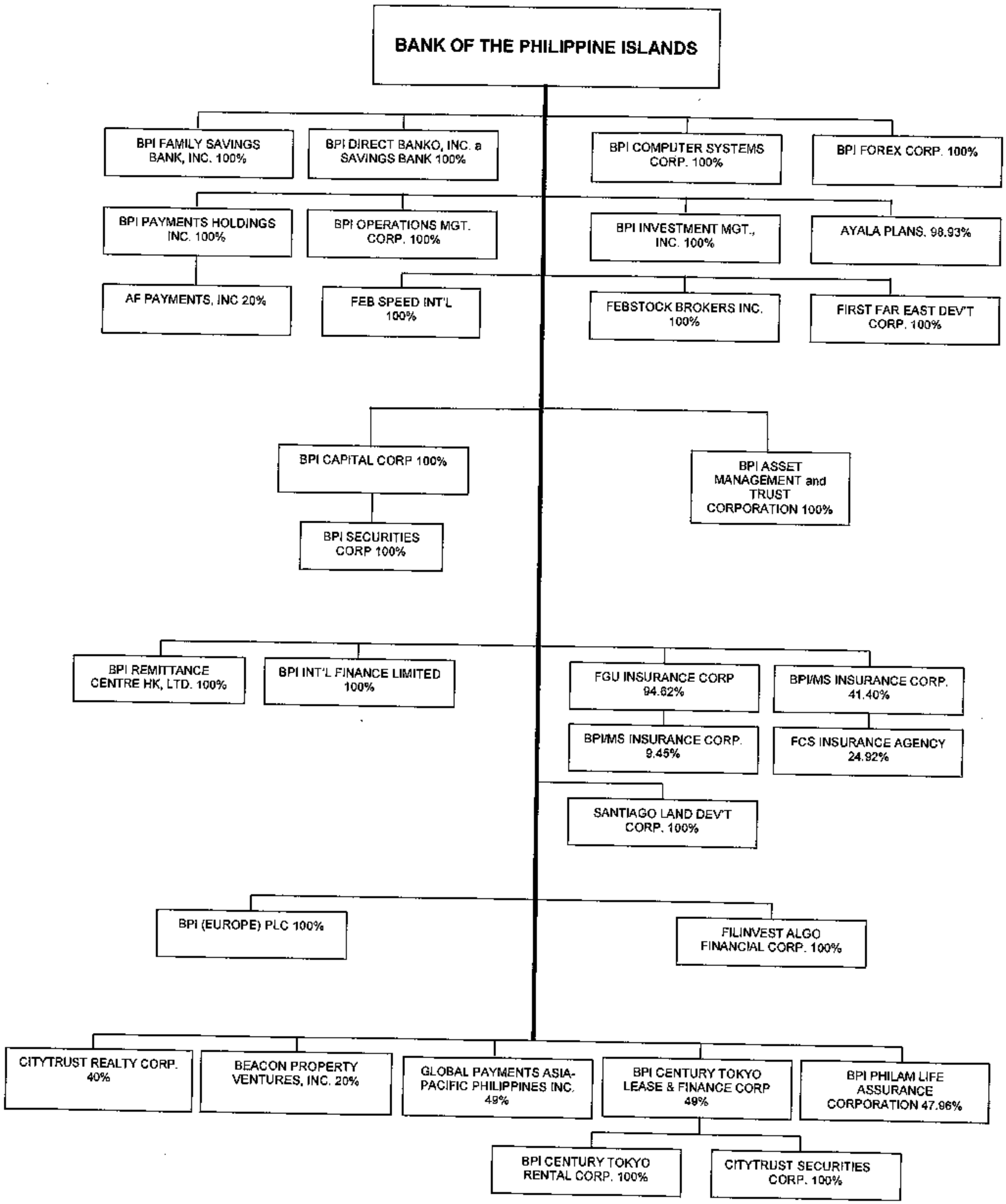
Ratio	Formula		Current Year	Prior Year
			in percentage	
Liquidity ratio	Total current assets divided by total current liabilities		62.68	60.31
	Total current assets	1,075,710		
	Divided by: Total deposits	1,716,177		
	Liquidity ratio	0.6268		
Debt-to-equity ratio	Total liabilities (Bills payable and 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
AS AT DECEMBER 31, 2020

Name of issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (In Millions of Pesos) (ii)	Valued based on market quotation at end of reporting period (In Millions of Pesos) (iii)	Income received and accrued
A. FINANCIAL ASSETS AT FVTPL				
ALFM DOLLAR BOND FUND	789,906,000	372	372	
ALFM EURO BOND FUND	450,000	243	243	
ALFM GLOBAL MULTI-ASSET FUND	101,270,000	53	53	
ALFM GROWTH FUND	251,223,050	76	76	
ALFM MONEY MARKET FUND	261,327,235	326	326	
ALFM PESO BOND FUND	83,797,746	814	814	
AYALA LIFE FIXED-INCOME FUND	911,430,000	161	161	
BDO UNIBANK INC.	253,175,000	44	44	
FIRST PACIFIC CO FINANCE LTD	101,970,000	60	60	
GT CAPITAL PREFERRED SHARES SERIES B.	101,270,000	67	67	
INDONESIAN GOVERNMENT	253,175,000	67	67	
PHILIPPINE GOVERNMENT	300,012,375	24,342	24,342	
PHILIPPINE NATIONAL BANK	50,635,000	46	46	
REPUBLIC OF THE PHILIPPINES	1,622,107,300	220	220	
RIZAL COMMERCIAL BANKING CORP	100,000	118	118	
SECURITY BANK CORPORATION	500,000	56	56	
UNION BANK OF THE PHILIPPINES	253,175,000	44	44	
UNITED KINGDOM GOVERNMENT	1,000,000	1,003	1,003	
US TREASURY	1,824,000	3,940	3,940	
US TREASURY BILL	200,869,045	370	370	
TOTAL		**32,422**	**32,422**	**279**
B. FINANCIAL ASSETS AT FVOCI				
ADANI GREEN ENERGY UP LIMITED	384,184,000	426	426	
ADANI PORTS AND SPECIAL ECONOMIC	1,037,296,800	1,096	1,096	
ADVANCE PROTEIN	50,000,000	100	100	
AEV INTL PTE	2,152,390,860	2,252	2,252	
AT&T INC	576,276,000	696	696	
AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	18,255,950	19	19	
BAIDU INC	144,069,000	167	167	
BANGKO SENTRAL NG PILIPINAS	3,461,650,000	3,460	3,460	
BANK OF CHINA LIMITED	1,584,759,000	1,584	1,584	
BDO UNIBANK INC.	384,184,000	397	397	
BPI AMTC	823,389,700	887	887	
BPI INVEST MM FUND	85,624,785	86	86	
Brightnote Assets (formerly Batangas Assets)	6,406,639	13	13	
CARTERA INTERCHANGE CORPORATION	26,571,000	53	53	
Century Horse Limited	1,980	18	18	
CITIC LIMITED	1,433,774,688	1,504	1,504	
CVS HEALTH CORP	96,046,000	112	112	
DEVELOPMENT BANK OF THE PHILIPPINES	500,000,000	512	512	
DM WENCESLAO EQUITY	497,542,800	315	315	
Entrego	4,776,243	6	6	
EXPORT-IMPORT BANK OF KOREA	38,418,400	39	39	
FPC CAPITAL LTD	960,460,000	1,018	1,018	
GREENKO DUTCH BV	831,326,153	881	881	
GREENKO MAURITIUS LTD	353,449,280	374	374	
HSBC BANK PLC	48,023,000	49	49	
INDL AND COMM BANK OF CHINA	960,460,000	959	959	
INDONESIAN GOVERNMENT	1,463,342,800	1,581	1,581	
INDUSTRIAL AND COMMERCIAL BANK OF CHINA - HONG KONG BRANCH	72,034,500	72	72	
Investment Capital of the Phils. Holdings Corp (IHC)	7,769,449	89	89	
JD COM INC	384,184,000	422	422	
JGSH PHILIPPINES LIMITED	960,460,000	1,028	1,028	

BANK OF THE PHILIPPINE ISLANDS
AS AT DECEMBER 31, 2020

Name of issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (In Millions of Pesos) (ii)	Valued based on market quotation at end of reporting period (In Millions of Pesos) (iii)	Income received and accrued
JOLLIBEE WORLDWIDE PTE LTD	2,401,150,000	2,521	2,521	
JPMORGAN CHASE & CO	4,802,300	5	5	
LENOVO GROUP LIMITED	600,287,500	696	696	
MEXICAN GOVERNMENT	240,115,000	273	273	
MUFG BANK LTD	48,023,000	49	49	
NATIONAL REINSURANCE CORP	500,399,595	195	195	
Others	108,749,056	70	70	
Philippine Depository & Trust Corporation	2,552,312	5	5	
PHILIPPINE GOVERNMENT	78,792,120,702	80,843	80,843	
PHILIPPINE NATIONAL BANK	484,604,600	498	498	
Philippine Stock Exchange	733,600	37	37	
POWER SECTOR ASSET	9,604,600	12	12	
PT PERUSAHAAN LISTRIL NEGARA	144,069,000	151	151	
PT TOWER BERSAMA INFRASTRUCTURE TBK	988,793,570	1,043	1,043	
REPUBLIC OF INDONESIA	96,046,000	98	98	
REPUBLIC OF THE PHILIPPINES	1,222,099,100	1,273	1,273	
RIZAL COMMERCIAL BANKING CORP	73,139,029	77	77	
ROXAS LAND INC.	15,281,114	13	13	
ROYALTY PHARMA PLC	144,069,000	147	147	
SECURITY BANK CORPORATION	240,115,000	263	263	
SMC GLOBAL POWER HOLDINGS CORP	682,000,000	725	725	
TENCENT HOLDINGS LIMITED	1,200,575,000	1,230	1,230	
US TREASURY	15,991,659,000	16,074	16,074	
US TREASURY BILL	48,023,000	48	48	
VANKE REAL ESTATE HK COMPANY LTD	606,770,605	651	651	
VARIOUS SHARES	1,567,052,896	1,482	1,482	
VENA ENERGY CAPITAL PTE LTD	432,207,000	440	440	
WALGREENS BOOTS ALLIANCE, INC.	832,478,705	902	902	
WESTPAC BANKING CORP	96,046,000	100	100	
ZALORA	49,115,500	50	50	
TOTAL		130,186	130,186	4,090
B. INVESTMENT SECURITIES AT AMORTIZED COST				
ABBOTT LABORATORIES USA	192,092,000	195	210	
ABOITIZ POWER CORP	117,000,000	119	124	
AC ENERGY FINANCE INTL LTD	480,230,000	488	519	
ADANI GREEN ENERGY UP	96,046,000	102	102	
ADANI PORTS AND SPECIAL ECON	96,046,000	97	96	
ALFA, S.A.B. DE C.V.	528,253,000	545	583	
ANZ BANKING GROUP LTD	1,392,667,000	1,412	1,438	
AT&T INC	225,861,800	261	259	
BANGKO SENTRAL NG PILIPINAS	20,357,208,955	21,248	21,277	
BANK OF AMERICA CORP	465,976,800	483	491	
BANK OF MONTREAL	48,023,000	48	50	
BANK OF NOVA SCOTIA CANADA	240,115,000	244	243	
BARCLAYS BANK PLC	384,184,000	390	385	
BAYER US FINANCE LLC	240,115,000	245	261	
BAYFRONT INFRASTRUCTURE CAP PTE LTD	1,754,533,298	1,770	1,755	
BNP PARIBAS FRANCE	718,163,965	736	740	
BRITISH TELECOM PLC	240,115,000	261	260	
CITIGROUP INC	240,115,000	240	241	
COMMONWEALTH BANK AUSTRALIA	432,207,000	439	477	
CREDIT SUISSE INTERNATIONAL NYC	480,230,000	493	531	
CVS HEALTH CORP	864,414,000	889	1,006	
CYBERZONE PROPERTIES INC.	375,000,000	379	390	
DANSKE BANK AS	120,057,500	121	121	
DEUTSCHE BANK AG	907,634,700	911	915	
DEUTSCHE BANK AG UK	1,498,317,600	1,500	1,609	
DEVELOPMENT BANK OF THE PHILIPPINES	96,046,000	98	97	
EUROPEAN INVESTMENT BANK	194,723,700	202	197	

BANK OF THE PHILIPPINE ISLANDS AS AT DECEMBER 31, 2020				
Name of issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (In Millions of Pesos) (ii)	Valued based on market quotation at end of reporting period (In Millions of Pesos) (iii)	Income received and accrued
FAR EAST HORIZON LTD	480,230,000	481	494	
FIRST PACIFIC CO FINANCE LTD	455,834,316	458	473	
FPC CAPITAL LTD	204,097,750	209	220	
GLP PTE LTD	480,230,000	453	505	
GOLDMAN SACHS AND CO LLC	480,230,000	495	543	
GREENKO DUTCH BV	96,046,000	100	97	
HSBC BANK PLC	4,008,335,741	4,146	4,173	
INDONESIAN GOVERNMENT	432,207,000	467	502	
ING BANK N.V	216,103,500	218	218	
INTERNATIONAL FINANCE CORPORATION	1,316,396,160	1,339	1,578	
JPMORGAN CHASE & CO	288,138,000	299	301	
LENOVO GROUP LTD	144,069,000	164	163	
LG CHEM LTD	96,046,000	102	102	
MANULIFE FINANCIAL CORP	192,092,000	205	223	
MARKS & SPENCER PLC	129,815,800	136	135	
MERCK & CO. INC	144,069,000	145	147	
METROPOLITAN BANK & TRUST CO	50,000,000	51	52	
MONDELEZ INTERNATIONAL HOLDINGS	72,034,500	71	71	
MORGAN STANLEY	432,207,000	449	445	
NEXT PLC	240,159,230	250	248	
NORDEA BANK	26,652,765	27	27	
PERUSAHAAN GAS NEGARA PERSER	96,046,000	102	101	
PETRON CORPORATION	1,950,000,000	1,963	1,904	
PFIZER INC.	456,218,500	453	503	
PHILIPPINE GOVERNMENT	115,517,087,339	117,974	120,915	
PHILIPPINE NATIONAL BANK	96,046,000	96	102	
POWER SECTOR ASSET	7,421,234,305	9,147	9,658	
REPUBLIC OF THE PHILIPPINES	36,221,155,658	47,591	51,174	
RIZAL COMMERCIAL BANKING CORP	518,648,400	521	547	
ROYALTY PHARMA PLC	96,046,000	97	96	
SECURITY BANK CORPORATION	96,046,000	97	104	
SIGMA ALIMENTOS S.A. DE C.V.	624,299,000	613	688	
SM INVESTMENT CORPORATION	324,000,000	325	337	
SM PRIME HOLDINGS INC	897,000,000	905	920	
STAR ENERGY GEOTHERMAL	14,406,900,000	14,500	14,496	
TESCO PLC	194,723,700	213	203	
UNION BANK OF THE PHILIPPINES	192,092,000	188	197	
US TREASURY	2,497,196,000	2,504	2,765	
US TREASURY BILL	216,103,500	216	214	
VANKE REAL ESTATE HK COMPANY LTD	240,115,000	250	263	
VENA ENERGY CAP PTE LTD	120,057,500	119	118	
VIGOROUS CHAMPION INTL LTD	672,322,000	675	719	
VODAFONE GROUP PLC	96,046,000	148	150	
WELLS FARGO BANK	912,437,000	926	928	
WESTPAC BANKING CORP	840,402,500	849	899	
TOTAL		244,653	253,097	12,075

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*