

Bank of the Philippine Islands

Financial Statements

**As at December 31, 2019 and 2018 and for each of the three
years in the period ended December 31, 2019**



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, 2019 and 2018, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards.

What we have audited

The financial statements comprise:

- the consolidated and parent statements of condition as at December 31, 2019 and 2018;
- the consolidated and parent statements of income for each of the three years in the period ended December 31, 2019;
- the consolidated and parent statements of comprehensive income for each of the three years in the period ended December 31, 2019;
- the consolidated and parent statements of changes in capital funds for each of the three years in the period ended December 31, 2019;
- the consolidated and parent statements of cash flows for each of the three years in the period ended December 31, 2019; 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

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Independence

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

Our Audit Approach

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

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

Key audit matters

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

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

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Key Audit Matter	How our audit addressed the Key Audit Matter
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, 2019, the total allowance for impairment for loans and advances amounted to PHP25,974 million for the BPI Group and PHP18,605 million for the Parent Bank while provision for loan losses recognized in profit or loss for the year then ended amounted to PHP6,073 million for the BPI Group and PHP5,011 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 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 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, <i>Financial instruments</i>; including continuous re-assessment by the BPI Group that the impairment models are operating in a way which is appropriate for the credit risks in the BPI Group and Parent Bank's loan portfolios; • review and approval of key judgments, assumptions and forward-looking information used in the ECL models; • reconciliations 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; and • the review and approval process for the outputs of the impairment models. Our work over the impairment of loans and advances included: • assessment of the methodology applied by the BPI Group and Parent Bank in the development of the ECL models vis-a-vis the requirements of PFRS 9; • testing of key assumptions in the ECL models such as PD, LGD, EAD built from historical data. Our assessment included the involvement of our internal specialist;

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Key Audit Matter	How our audit addressed the Key Audit Matter
<i>(cont'd.)</i> 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). In calculating the loan loss provisioning, the BPI Group and 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 Parent Bank's view on potential future economic events.	- assessment of the appropriateness of the BPI Group's and 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 in the ECL models by comparing them with the information obtained from source systems; - 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 Parent Bank.



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Other Information

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated and parent financial statements in accordance with Philippine Financial Reporting Standards, 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 Philippine Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and parent financial statements.

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As part of an audit in accordance with Philippine Standards on Auditing, 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.



Isla Lipana & Co.

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

Report on the Supplementary Information Required by the Bangko Sentral ng Pilipinas (BSP) and 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 30 and BIR Revenue Regulations 15-2010 in Note 31 to the financial statements is presented for purposes of filing with the BSP and 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. The information has been subjected to the auditing procedures applied in our audit 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 Zaldy D. Aguirre.

Isla Lipana & Co.

Zaldy D. Aguirre
Partner

CPA Cert No. 105660

P.T.R. No. 0024447, issued on January 7, 2020, Makati City

SEC A.N. (individual) as general auditors 1176-AR-2, Category A; effective until June 20, 2021

SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021

TIN 221-755-698

BIR A.N. 08-000745-77-2018, issued on January 29, 2018; effective until January 28, 2021

BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
February 26, 2020

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2019 and 2018
(In Millions of Pesos)

		Consolidated		Parent	
	Notes	2019	2018	2019	2018
<u>ASSETS</u>					
CASH AND OTHER CASH ITEMS	4	47,256	43,536	45,982	42,419
DUE FROM BANGKO SENTRAL NG PILIPINAS	4	207,845	225,907	181,815	202,487
DUE FROM OTHER BANKS	4	22,356	12,477	18,356	8,615
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	4,5	22,570	34,323	18,364	22,659
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	6,7	24,105	16,721	17,688	10,346
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	8	53,905	37,206	48,320	30,583
INVESTMENT SECURITIES AT AMORTIZED COST, net	9	275,105	287,571	252,006	267,497
LOANS AND ADVANCES, net	10	1,475,336	1,354,896	1,231,776	1,125,956
ASSETS HELD FOR SALE, net		3,155	3,363	342	455
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	11	23,748	16,252	16,595	10,146
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net	12	6,746	5,659	10,031	9,942
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	2,4	17,790	16,582	-	-
DEFERRED INCOME TAX ASSETS, net	13	9,706	8,536	6,653	5,723
OTHER ASSETS, net	14	15,407	22,199	9,910	16,313
Total assets		2,205,030	2,085,228	1,857,838	1,753,141
(forward)					

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2019 and 2018
(In Millions of Pesos)

		Consolidated		Parent	
	Notes	2019	2018	2019	2018
<u>LIABILITIES AND CAPITAL FUNDS</u>					
DEPOSIT LIABILITIES	15	1,695,343	1,585,746	1,456,458	1,347,207
DERIVATIVE FINANCIAL LIABILITIES	7	2,877	3,891	2,877	3,888
BILLS PAYABLE AND OTHER BORROWED FUNDS	16	150,837	166,901	126,529	150,880
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		2,946	3,988	2,946	3,988
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		8,299	6,931	6,421	5,354
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		9,865	9,057	7,418	6,875
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	2	14,061	14,056	-	-
DEFERRED CREDITS AND OTHER LIABILITIES	17	47,768	43,120	38,939	35,793
Total liabilities		1,931,996	1,833,690	1,641,588	1,553,985
CAPITAL FUNDS ATTRIBUTABLE TO THE					
EQUITY HOLDERS OF BPI	18				
Share capital		44,999	44,961	44,999	44,961
Share premium		74,449	74,181	74,449	74,181
Reserves		5,108	4,096	4,892	3,977
Surplus		147,460	127,459	94,226	76,958
Accumulated other comprehensive loss		(2,439)	(2,176)	(2,316)	(921)
		269,577	248,521	216,250	199,156
NON-CONTROLLING INTERESTS					
Total capital funds		273,034	251,538	216,250	199,156
Total liabilities and capital funds		2,205,030	2,085,228	1,857,838	1,753,141

(The notes on pages 1 to 109 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, 2019 (In Millions of Pesos, Except Per Share Amounts)

	Notes	Consolidated			Parent		
		2019	2018	2017	2019	2018	2017
INTEREST INCOME							
On loans and advances		87,151	69,401	54,615	67,895	51,901	38,752
On investment securities		12,709	9,616	9,185	11,776	8,942	8,403
On deposits with BSP and other banks		1,723	1,173	2,049	808	548	977
		101,583	80,190	65,849	80,479	61,391	48,132
INTEREST EXPENSE							
On deposits	15	28,874	21,255	16,660	21,476	15,645	11,413
On bills payable and other borrowed funds	16	6,764	3,092	1,150	6,031	2,588	885
		35,638	24,347	17,810	27,507	18,233	12,298
NET INTEREST INCOME		65,945	55,843	48,039	52,972	43,158	35,834
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	5,9,10,14	5,822	4,923	3,795	4,666	4,279	3,519
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES		60,123	50,920	44,244	48,306	38,879	32,315
OTHER INCOME							
Fees and commissions		9,062	8,224	7,716	8,502	7,219	6,224
Income from foreign exchange trading		2,102	2,128	2,136	1,930	1,831	1,798
Income attributable to insurance operations	2	1,223	1,223	1,413	-	-	-
Securities trading gain		4,010	719	923	3,678	258	754
Other operating income	19	11,992	10,387	10,793	10,487	5,919	14,171
		28,389	22,681	22,981	24,597	15,227	22,947
OTHER EXPENSES							
Compensation and fringe benefits	21	17,487	15,315	13,897	13,479	11,834	10,691
Occupancy and equipment-related expenses	11,20	16,123	13,146	11,344	12,943	10,570	9,062
Other operating expenses	21	16,467	15,141	13,292	12,058	11,257	9,626
		50,077	43,602	38,533	38,480	33,661	29,379
PROFIT BEFORE INCOME TAX		38,435	29,999	28,692	34,423	20,445	25,883
INCOME TAX EXPENSE	22						
Current		10,037	7,404	6,418	8,788	5,793	4,248
Deferred	13	(685)	(734)	(462)	(583)	(776)	(462)
		9,352	6,670	5,956	8,205	5,017	3,786
NET INCOME FOR THE YEAR		29,083	23,329	22,736	26,218	15,428	22,097
Attributable to:							
Equity holders of BPI		28,803	23,078	22,416	26,218	15,428	22,097
Non-controlling interests		280	251	320	-	-	-
		29,083	23,329	22,736	26,218	15,428	22,097
Earnings per share for net income attributable to the equity holders of BPI during the year:							
Basic and diluted	18	6.39	5.35	5.69	5.82	3.57	5.61

(The notes on pages 1 to 109 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF COMPREHENSIVE INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019
(In Millions of Pesos)

	Note	Consolidated			Parent		
		2019	2018	2017	2019	2018	2017
NET INCOME FOR THE YEAR		29,083	23,329	22,736	26,218	15,428	22,097
OTHER COMPREHENSIVE (LOSS) INCOME	18						
Items that may be subsequently reclassified to profit or loss							
Share in other comprehensive income (loss) of associates		1,286	(1,281)	(252)	-	-	-
Net change in fair value reserve on investments in debt instruments measured at FVOCI, net of tax effect		262	(771)	-	249	(461)	-
Fair value reserve on investments of insurance subsidiaries, net of tax effect		545	(400)	196	-	-	-
Currency translation differences and others		(202)	(26)	126	(124)	-	-
Net change in fair value reserve on AFS, net of tax effect		-	-	713	-	-	449
Items that will not be reclassified to profit or loss							
Remeasurements of defined benefit obligation		(1,418)	612	(272)	(1,141)	431	(338)
Share in other comprehensive (loss) income of associates		(32)	596	(528)	-	-	-
Net change in fair value reserve on investments in equity instruments measured at FVOCI, net of tax effect		(313)	(19)	-	(379)	320	-
Total other comprehensive (loss) income, net of tax effect		128	(1,289)	(17)	(1,395)	290	111
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		29,211	22,040	22,719	24,823	15,718	22,208
Attributable to:							
Equity holders of BPI		28,769	21,878	22,406	24,823	15,718	22,208
Non-controlling interests		442	162	313	-	-	-
		29,211	22,040	22,719	24,823	15,718	22,208

(The notes on pages 1 to 109 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN EQUITY
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019
(In Millions of Pesos)

	Consolidated							
	Attributable to equity holders of BPI (Note 18)					Total	Non-controlling interests	Total equity
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)			
Balance, January 1, 2017	39,308	29,591	2,711	98,602	(5,078)	165,134	2,550	167,684
Comprehensive income								
Net income for the year	-	-	-	22,416	-	22,416	320	22,736
Other comprehensive loss for the year	-	-	-	-	(10)	(10)	(7)	(17)
Total comprehensive income (loss) for the year	-	-	-	22,416	(10)	22,406	313	22,719
Transactions with owners								
Exercise of stock option plans	28	180	31	-	-	239	-	239
Cash dividends	-	-	-	(7,091)	-	(7,091)	-	(7,091)
Total transactions with owners	28	180	31	(7,091)	-	(6,852)	-	(6,852)
Transfer from surplus to reserves	-	-	90	(90)	-	-	-	-
Transfer from reserves to surplus	-	-	(2,578)	2,578	-	-	-	-
	-	-	(2,488)	2,488	-	-	-	-
Balance, December 31, 2017	39,336	29,771	254	116,415	(5,088)	180,688	2,863	183,551
Impact of PFRS 9 adoption	-	-	-	(62)	4,111	4,049	(8)	4,041
Restated 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

(The notes on pages 1 to 109 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN EQUITY
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019
(In Millions of Pesos)

	Parent (Note 18)					
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2017	39,308	29,591	2,695	56,095	(4,807)	122,882
Comprehensive income						
Net income for the year	-	-	-	22,097	-	22,097
Other comprehensive income for the year	-	-	-	-	111	111
Total comprehensive income for the year	-	-	-	22,097	111	22,208
Transactions with owners						
Exercise of stock option plans	28	180	25	-	-	233
Cash dividends	-	-	-	(7,091)	-	(7,091)
Total transactions with owners	28	180	25	(7,091)	-	(6,858)
Transfer from reserves to surplus	-	-	(2,578)	2,578	-	-
Balance, December 31, 2017	39,336	29,771	142	73,679	(4,696)	138,232
Impact of PFRS 9 adoption	-	-	-	(178)	3,485	3,307
Restated 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
Balance, December 31, 2019	44,999	74,449	4,892	94,226	(2,316)	216,250

(The notes on pages 1 to 109 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, 2019
(In Millions of Pesos)

		Consolidated			Parent		
	Notes	2019	2018	2017	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before income tax		38,435	29,999	28,692	34,423	20,445	25,883
Adjustments for:							
Impairment losses	5,9,10,14	5,822	4,923	3,795	4,666	4,271	3,519
Depreciation and amortization	11,14	7,132	4,797	4,255	4,767	2,916	2,783
Share in net income of associates	12	(372)	(700)	(772)	-	-	-
Dividend and other income	19	(77)	(76)	(68)	(3,794)	(904)	(9,492)
Share-based compensation	18	30	(25)	31	42	(32)	25
Interest income		(101,583)	(80,190)	(68,053)	(83,279)	(61,391)	(49,783)
Interest received		100,293	77,715	66,816	83,294	59,960	48,753
Interest expense		35,638	24,347	17,810	27,507	18,233	12,298
Interest paid		(35,300)	(23,440)	(17,495)	(27,375)	(17,494)	(11,901)
(Increase) decrease in:							
Interbank loans receivable and securities purchased under agreements to resell		1,898	(821)	595	1,895	(966)	(353)
Financial assets at fair value through profit or loss		(8,472)	(2,257)	9,272	(8,469)	(236)	6,498
Loans and advances, net		(125,028)	(154,077)	(164,957)	(109,711)	(140,860)	(168,485)
Assets held for sale		400	655	313	353	509	447
Assets attributable to insurance operations		287	465	(944)	-	-	-
Other assets		5,611	(8,096)	(3,940)	5,702	(3,761)	(6,745)
Increase (decrease) in:							
Deposit liabilities		109,598	23,546	130,900	109,252	23,244	139,485
Due to Bangko Sentral ng Pilipinas and other banks		(1,041)	2,770	548	(1,041)	2,770	548
Manager's checks and demand drafts outstanding		1,368	(91)	(557)	1,067	(408)	(131)
Accrued taxes, interest and other expenses		303	1,033	(51)	411	562	(252)
Liabilities attributable to insurance operations		5	(457)	146	-	-	-
Derivative financial instruments		(38)	52	(311)	(28)	45	(306)
Deferred credits and other liabilities		7,335	2,493	7,550	6,094	2,506	6,037
Net cash from (used in) operations		42,244	(97,435)	13,575	45,776	(90,591)	(1,172)
Income taxes paid		(10,363)	(7,115)	(6,505)	(9,135)	(5,560)	(4,395)
Net cash from (used in) operating activities		31,881	(104,550)	7,070	36,641	(96,151)	(5,567)
(forward)							

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019
(In Millions of Pesos)

	Notes	Consolidated			Parent		
		2019	2018	2017	2019	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES							
(Increase) decrease in:							
Investment securities, net	8,9	(4,343)	(25,828)	(7,029)	(3,574)	(31,400)	727
Bank premises, furniture, fixtures and equipment, net	11	(13,400)	(5,048)	(4,191)	(10,285)	(2,518)	(2,018)
Investment properties, net	14	(57)	1	-	(55)	12	-
Investment in subsidiaries and associates, net	12	933	305	745	(89)	(899)	(95)
Assets attributable to insurance operations		(1,368)	364	58	-	-	-
Dividends received	18	77	76	68	3,794	904	9,492
Net cash (used in) from investing activities		(18,158)	(30,130)	(10,349)	(10,209)	(33,901)	8,106
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash dividends paid	17,18	(12,167)	(7,598)	(7,089)	(12,165)	(7,598)	(7,089)
Proceeds from share issuance	18	306	50,035	207	306	50,035	207
(Decrease) increase in bills payable and other borrowed funds	16	(16,064)	83,384	21,544	(24,351)	80,158	18,466
Net cash (used in) from financing activities		(27,925)	125,821	14,662	(36,210)	122,595	11,584
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(14,202)	(8,859)	11,383	(9,778)	(7,457)	14,123
CASH AND CASH EQUIVALENTS							
January 1	4,5	313,270	322,129	310,746	273,122	280,579	266,456
December 31		299,068	313,270	322,129	263,344	273,122	280,579

(The notes on pages 1 to 109 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

NOTES TO FINANCIAL STATEMENTS

**AS AT DECEMBER 31, 2019 and 2018 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2019**

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 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, 2019, the BPI Group has 21,429 employees (2018 - 18,911 employees) and operates 1,167 branches (2018 - 1,056 branches) and 2,822 ATMs (2018 - 3,034 ATMs) to support its delivery of services. The BPI Group also serves its customers through alternative electronic banking channels such as telephone, mobile phone and the internet.

The 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.

These financial statements have been approved and authorized for issuance by the Board of Directors (BOD) of the Parent Bank on February 19, 2020. There are no material events that occurred subsequent to February 19, 2020 until February 26, 2020.

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

Subsidiaries	Country of incorporation	Principal activities	% of ownership	
			2019	2018
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 Express Remittance Corp. USA	USA	Remittance	100	100
BPI Remittance Centre (HK) Ltd.	Hong Kong	Remittance	100	100
Green Enterprises S. R. L. in Liquidation	Italy	Remittance	100	100
First Far - East Development Corporation	Philippines	Real estate	100	100
FEB Stock Brokers, Inc.	Philippines	Securities dealer	100	100
BPI Express Remittance Spain S.A	Spain	Remittance	100	100
FEB Speed International	Philippines	Remittance	100	100
AF Holdings & Management Corp.	Philippines	Financial management consultancy	100	100
Ayala Plans, Inc.	Philippines	Pre-need	98.93	98.67
FGU Insurance Corporation	Philippines	Non-life insurance	94.62	94.62
BPI Century Tokyo Lease and Finance Corporation	Philippines	Leasing	51	51
BPI Century Tokyo Rental Corporation	Philippines	Rental	51	51
CityTrust Securities Corporation	Philippines	Securities dealer	51	51
BPI/MS Insurance Corporation	Philippines	Non-life insurance	50.85	50.85

Note 2 - Assets and Liabilities Attributable to Insurance Operations

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

	2019	2018
	(In Millions of Pesos)	
Assets		
Cash and cash equivalents (Note 4)	217	89
Insurance balances receivable, net	5,010	5,596
Investment securities		
Financial assets at fair value through profit or loss	5,382	1,788
Financial assets at fair value through other comprehensive income (OCI)	4,344	6,522
Financial assets at amortized cost	153	202
Investment in associates	167	167
Accounts receivable and other assets, net	2,320	2,106
Land, building and equipment	197	112
	17,790	16,582

	2019	2018
	(In Millions of Pesos)	
Liabilities		
Reserves and other balances	12,544	12,909
Accounts payable, accrued expenses and other payables	1,517	1,147
	14,061	14,056

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

	2019	2018	2017
	(In Millions of Pesos)		
Premiums earned and related income	3,841	3,750	3,624
Investment and other income	712	755	864
	4,553	4,505	4,488
Benefits, claims and maturities	1,942	2,049	2,006
Decrease in actuarial reserve liabilities	(412)	(379)	(524)
Commissions	938	800	789
Management and general expenses	838	799	791
Other expenses	24	13	13
	3,330	3,282	3,075
Income before income tax and minority interest	1,223	1,223	1,413

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, leasing, 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 (more than 90%) 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 statements of condition, but exclude items such as taxation.

The segment assets, liabilities and results of operations of the reportable segments of the BPI Group as at and for the years ended December 31 are as follows:

	2019			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(In Millions of Pesos)			
Net interest income	41,494	17,168	11,860	70,522
Provision for credit and impairment losses	3,489	2,328	5	5,822
Net interest income after provision for credit and impairment losses	38,005	14,840	11,855	64,700
Fees, commissions and other income, net	14,313	4,020	8,329	26,662
Total income	52,318	18,860	20,184	91,362
Compensation and fringe benefits	14,373	2,598	1,108	18,079
Occupancy and equipment-related expenses	10,147	2,126	314	12,587
Other operating expenses	15,057	3,389	1,721	20,167
Total other expenses	39,577	8,113	3,143	50,833
Operating profit	12,741	10,747	17,041	40,529
Share in net income of associates				563
Income tax expense				9,352
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			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(In Millions of Pesos)			
Net interest income	33,973	11,019	16,148	61,140
Provision for credit and impairment losses	1,712	3,206	6	4,924
Net interest income after provision for credit and impairment losses	32,261	7,813	16,142	56,216
Fees, commissions and other income, net	12,292	3,260	5,280	20,832
Total income	44,553	11,073	21,422	77,048
Compensation and fringe benefits	12,554	2,132	1,002	15,688
Occupancy and equipment-related expenses	8,570	1,977	231	10,778
Other operating expenses	14,484	3,006	1,716	19,206
Total other expenses	35,608	7,115	2,949	45,672
Operating profit	8,945	3,958	18,473	31,376
Share in net income of associates				700
Income tax expense				6,670
Total assets	534,234	1,113,367	409,797	2,057,398
Total liabilities	1,124,800	552,969	137,872	1,815,641

	2017			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(In Millions of Pesos)			
Net interest income	28,083	10,195	13,384	51,662
Provision for credit and impairment losses	2,085	1,710	5	3,800
Net interest income after provision for credit and impairment losses	25,998	8,485	13,379	47,862
Fees, commissions and other income, net	12,148	2,657	6,694	21,499
Total income	38,146	11,142	20,073	69,361
Compensation and fringe benefits	9,311	1,335	1,020	11,666
Occupancy and equipment-related expenses	4,242	1,210	125	5,577
Other operating expenses	13,512	2,706	1,652	17,870
Total other expenses	27,065	5,251	2,797	35,113
Operating profit	11,081	5,891	17,276	34,248
Share in net income of associates				772
Income tax expense				5,956
Total assets	476,749	1,007,058	389,085	1,872,892
Total liabilities	1,063,069	550,367	85,946	1,699,382

Reconciliation of segment results to consolidated results of operations:

	2019		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	70,522	(4,577)	65,945
Provision for credit and impairment losses	5,822	-	5,822
Net interest income after provision for credit and impairment losses	64,700	(4,577)	60,123
Fees, commissions and other income, net	26,662	1,727	28,389
Total income	91,362	(2,850)	88,512
Compensation and fringe benefits	18,079	(592)	17,487
Occupancy and equipment-related expenses	12,587	3,536	16,123
Other operating expenses	20,167	(3,700)	16,467
Total other expenses	50,833	(756)	50,077
Operating profit	40,529	(2,094)	38,435
Share in net income of associates (included in Other income)	563		563
Income tax expense	9,352		9,352
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	61,140	(5,297)	55,843
Impairment charge	4,924	(1)	4,923
Net interest income after impairment charge	56,216	(5,296)	50,920
Fees, commissions and other income, net	20,832	1,849	22,681
Total income	77,048	(3,447)	73,601
Compensation and fringe benefits	15,688	(373)	15,315
Occupancy and equipment - related expenses	10,778	2,368	13,146
Other operating expenses	19,206	(4,065)	15,141
Total operating expenses	45,672	(2,070)	43,602
Operating profit	31,376	(1,377)	29,999
Share in net income of associates (included in Other income)	700	-	700
Income tax expense	6,670	-	6,670
Total assets	2,057,398	27,830	2,085,228
Total liabilities	1,815,641	18,049	1,833,690

	2017		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	51,662	(3,623)	48,039
Provision for credit and impairment losses	3,800	(5)	3,795
Net interest income after provision for credit and impairment losses	47,862	(3,618)	44,244
Fees, commissions and other income, net	21,499	1,482	22,981
Total income	69,361	(2,136)	67,225
Compensation and fringe benefits	11,666	2,231	13,897
Occupancy and equipment-related expenses	5,577	5,767	11,344
Other operating expenses	17,870	(4,578)	13,292
Total other expenses	35,113	3,420	38,533
Operating profit	34,248	(5,556)	28,692
Share in net income of associates (included in Other income)	772	-	772
Income tax expense	5,956	-	5,956
Total assets	1,872,892	31,013	1,903,905
Total liabilities	1,699,382	20,972	1,720,354

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

Note 4 - Cash and Cash Equivalents

The account at December 31 consists of:

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Cash and other cash items	47,256	43,536	45,982	42,419
Due from Bangko Sentral ng Pilipinas (BSP)	207,845	225,907	181,815	202,487
Due from other banks	22,356	12,477	18,356	8,615
Interbank loans receivable and securities purchased under agreements to resell (Note 5)	21,394	31,261	17,191	19,601
Cash and cash equivalents attributable to insurance operations (Note 2)	217	89	-	-
	299,068	313,270	263,344	273,122

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

The account at December 31 consists of transactions with:

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
BSP	20,306	24,791	16,947	14,000
Other banks	2,293	9,552	1,451	8,686
	22,599	34,343	18,398	22,686
Accrued interest receivable	11	30	6	23
	22,610	34,373	18,404	22,709
Allowance for impairment	(40)	(50)	(40)	(50)
	22,570	34,323	18,364	22,659

As at December 31, 2019, Interbank loans receivable and SPAR maturing within 90 days from the date of acquisition amounting to P21,394 million (2018 - P31,261 million) for BPI Group and P17,191 million (2018 - P19,601 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	
	2019	2018	2019	2018
Peso-denominated	3.49 - 5.74	2.65 - 5.40	4.33 - 10.48	3.12 - 7.37
US dollar-denominated	1.55 - 2.62	1.50 - 2.34	1.55 - 2.62	1.50 - 2.34

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

The account at December 31 consists of:

	Note	Consolidated		Parent	
		2019	2018	2019	2018
		(In Millions of Pesos)			
Debt securities					
Government securities		17,017	8,953	14,482	5,515
Commercial papers of private companies		4,082	3,497	283	800
Listed equity securities		73	238	-	-
Derivative financial assets	7	2,933	4,033	2,923	4,031
		24,105	16,721	17,688	10,346

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

Consolidated

	Fair Values			
	Assets		Liabilities	
	2019	2018	2019	2018
	(In Millions of Pesos)			
<i>Held for trading</i>				
Foreign exchange derivatives				
Currency swaps	630	1,077	950	830
Currency forwards	436	250	450	219
Interest rate derivatives				
Interest rate swap	1,856	2,702	1,414	2,839
Interest rate futures	-	-	-	3
Warrants	2	4	-	-
Equity option	9	-	-	-
<i>Held for hedging</i>				
Cross currency swap	-	-	63	-
	2,933	4,033	2,877	3,891

Parent

	Fair Values			
	Assets		Liabilities	
	2019	2018	2019	2018
Held for trading				
Foreign exchange derivatives				
Currency swaps	630	1,077	950	827
Currency forwards	436	250	450	219
Interest rate derivatives				
Interest rate swap	1,855	2,702	1,414	2,839
Interest rate futures	-	-	-	3
Warrants	2	2	-	-
Held for hedging				
Cross currency swap	-	-	63	-
	2,923	4,031	2,877	3,888

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 assessed to be effective as of 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	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Debt securities				
Government securities	39,751	32,718	36,409	27,814
Commercial papers of private companies	10,624	2,695	9,914	2,090
	50,375	35,413	46,323	29,904
Accrued interest receivable	704	118	686	89
	51,079	35,531	47,009	29,993
Equity securities				
Listed	1,738	1,129	972	406
Unlisted	1,088	546	339	184
	2,826	1,675	1,311	590
	53,905	37,206	48,320	30,583

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

	Consolidated		Parent	
	2019	2018	2019	2018
Peso-denominated	4.09 - 5.40	1.18 - 4.20	4.42 - 5.75	1.65 - 5.43
Foreign currency-denominated	2.14 - 2.94	2.09 - 2.85	2.14 - 2.94	2.33 - 2.85

Interest income from debt instruments recognized in the statement of income for the year ended December 31, 2019 amounts to P1,983 million (2018 - P278 million; 2017 - P200 million) and P1,871 million (2018 - P160 million; 2017 - P323 million) for the BPI Group and Parent Bank, respectively.

Dividend income from equity instruments recognized in the statement of income for the year ended December 31, 2019 amounts to P76 million (2018 - P64 million; 2017 - P53 million) and P48 million (2018 - P41 million; 2017 - P26 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	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Government securities	190,773	196,957	170,366	180,044
Commercial papers of private companies	80,644	86,826	78,285	83,964
	271,417	283,783	248,651	264,008
Accrued interest receivable	3,688	3,790	3,355	3,491
	275,105	287,573	252,006	267,499
Allowance for impairment	-	(2)	-	(2)
	275,105	287,571	252,006	267,497

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

	Consolidated		Parent	
	2019	2018	2019	2018
Peso-denominated	3.62 - 4.03	3.53 - 3.90	3.64 - 4.05	3.55 - 3.93
Foreign currency-denominated	3.08 - 4.69	2.80 - 3.16	3.11 - 4.83	2.84 - 3.19

Interest income from these investment securities recognized in the statements of income for the year ended December 31, 2019 amounts to P10,504 million (2018 - P9,035 million; 2017 - P8,631 million) and P9,675 million (2018 - P8,514 million; 2017 - P7,912 million) for the BPI Group and the Parent Bank, respectively.

Investment securities are expected to be realized as follows:

	Consolidated		Parent	
	2019	2018	2019	2018
		(In Millions of Pesos)		
Current (within 12 months)	15,165	30,159	10,686	28,038
Non-current (over 12 months)	259,940	257,414	241,320	239,461
	275,105	287,573	252,006	267,499

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	
	2019	2018	2019	2018
Corporate loans		(In Millions of Pesos)		
Large corporate customers	1,147,643	1,043,855	1,121,050	1,019,626
Small and medium enterprise	73,357	87,998	54,553	62,058
Retail loans				
Credit cards	75,100	60,843	72,785	59,228
Real estate mortgages	137,380	126,088	11	12
Auto loans	53,789	51,845	-	-
Others	11,421	5,145	499	14
	1,498,690	1,375,774	1,248,898	1,140,938
Accrued interest receivable	9,660	8,454	6,958	5,963
Unearned discount/income	(7,040)	(6,430)	(5,475)	(4,978)
	1,501,310	1,377,798	1,250,381	1,141,923
Allowance for impairment	(25,974)	(22,902)	(18,605)	(15,967)
	1,475,336	1,354,896	1,231,776	1,125,956

Loans and advances aggregating P19,628 million (2017 - P31,520 million) are used as security for bills payable of the Parent Bank (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	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Within 12 months (Current)	552,190	554,183	517,516	515,723
Over 12 months (Non-current)	949,120	823,615	732,865	626,200
	1,501,310	1,377,798	1,250,381	1,141,923

Finance lease operations (the BPI Group as the lessor)

The BPI Group, through BPI Century Tokyo Lease and Finance Corporation, 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 10% 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.

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

	Consolidated	
	2019	2018
	(In Millions of Pesos)	
Total future minimum lease collections	12,666	11,203
Unearned finance income	(1,395)	(1,321)
Present value of future minimum lease collections	11,271	9,882
Allowance for credit losses	(628)	(304)
	10,643	9,578

Details of future gross minimum lease payments receivable follow:

	Consolidated	
	2019	2018
	(In Millions of Pesos)	
Not later than one year	1,532	4,299
Later than one year but not later than five years	10,373	6,270
More than five years	761	634
	12,666	11,203
Unearned finance income	(1,395)	(1,321)
	11,271	9,882

There are no contingent rents arising from lease contracts outstanding at December 31, 2019 and 2018.

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

	Consolidated		Parent	
	2019	2018	2019	2018
Commercial loans				
Peso-denominated loans	5.00 - 5.95	4.11 - 5.52	5.24 - 5.88	3.98 - 5.44
Foreign currency-denominated loans	4.18 - 4.91	3.61 - 4.86	4.18 - 4.91	3.61 - 4.86
Real estate mortgages	7.30 - 7.74	6.61 - 6.97	0.10 - 4.26	7.04 - 8.00
Auto loans	8.31 - 10.69	7.46 - 10.93	-	-

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	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	278,099	220,587	138,607	97,170
Chattel mortgage	57,037	54,731	10	9
Others	148,385	172,503	146,038	168,260
	483,521	447,821	284,655	265,439
Unsecured loans	1,008,129	921,523	958,768	870,521
	1,491,650	1,369,344	1,243,423	1,135,960

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

	Note	2019				Total
		Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	
		(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	20,29	-	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

	2018				Total
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	
	(In Millions of Pesos)				
Cost					
January 1, 2018	3,023	9,591	15,278	5,502	33,394
Additions	-	1,443	2,052	1,875	5,370
Disposals	(1)	(145)	(840)	(1,765)	(2,751)
Transfers	6	-	6	(32)	(20)
December 31, 2018	3,028	10,889	16,496	5,580	35,993
Accumulated depreciation					
January 1, 2018	-	4,849	11,749	1,739	18,337
Depreciation and amortization	-	755	1,831	1,269	3,855
Disposals	-	(93)	(541)	(1,800)	(2,434)
Transfers	-	-	1	(18)	(17)
December 31, 2018	-	5,511	13,040	1,190	19,741
Net book value, December 31, 2018	3,028	5,378	3,456	4,390	16,252

Parent

	Note	2019			Total
		Land	Buildings and leasehold improvements	Furniture and equipment	
		(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	20,29	-	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

	2018			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2018	2,661	8,582	13,850	25,093
Additions	(1)	1,178	1,590	2,767
Disposals	-	(145)	(732)	(877)
Transfers	17	-	-	17
December 31, 2018	2,677	9,615	14,708	27,000
Accumulated depreciation				
January 1, 2018	-	4,492	10,696	15,188
Depreciation and amortization	-	642	1,634	2,276
Disposals	-	(94)	(516)	(610)
December 31, 2018	-	5,040	11,814	16,854
Net book value, December 31, 2018	2,677	4,575	2,894	10,146

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

In 2019, the Parent Bank realized a gain of P855 million (2018 - P969 million) (Note 19) from disposal of certain properties.

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	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Carrying value (net of impairment)				
Investments at equity method	6,746	5,659	-	-
Investments at cost method	-	-	10,031	9,942
	6,746	5,659	10,031	9,942

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

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest		Acquisition cost	
		2019	2018	2019	2018
			(in %)	(In Millions of Pesos)	
BPI-Philamlife Assurance Corporation (BPLAC)	Philippines	47.96	47.67	389	371
AF Payments, Inc. (AFPI)	Philippines	20.00	20.00	204	750
National Reinsurance Corporation of the Philippines*	Philippines	13.69	13.69	72	204
Beacon Property Ventures, Inc.	Philippines	20.00	20.00	2	72
CityTrust Realty Corporation	Philippines	40.00	40.00	820	2
Global Payments Asia-Pacific Philippines, Incorporated	Philippines	49.00	49.00	1,342	1,342
				2,829	2,741

*The Parent Bank has a significant influence due to its representation in the governing body of National Reinsurance Corporation of the Philippines

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

	2019	2018
	(In Millions of Pesos)	
Acquisition cost		
At January 1	2,741	2,681
Additions during the year	88	60
At December 31	2,829	2,741
Accumulated equity in net income		
At January 1	3,264	3,239
Share in net income for the year	372	700
Dividends received	(629)	(675)
At December 31	3,007	3,264
Accumulated share in other comprehensive income (loss)		
At January 1	(206)	466
Share in other comprehensive income (loss) for the year	1,256	(672)
At December 31	1,050	(206)
Allowance for impairment	(140)	(140)
	6,746	5,659

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 has been aggregated as follows:

	2019	2018
	(In Millions of Pesos)	
Total assets	132,126	122,616
Total liabilities	113,282	105,960
Total revenues	25,911	18,618
Total net income	2,007	1,425

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	
	2019	2018	2019	2018	2019	2018
	(In Millions of Pesos)					
Subsidiaries						
BPI Europe Plc.	1,910	1,910	-	-	1,910	1,910
BPI Asset Management and Trust Corporation (BPI AMTC)	1,009	1,502	-	-	1,009	1,502
BPI Direct Banko, Inc., A Savings Bank	864	1,009	-	-	864	1,009
Ayala Plans, Inc. (API)	623	863	-	-	623	863
BPI Capital Corporation	1,502	623	-	-	1,502	623
BPI Payments Holdings Inc.	573	503	(299)	(299)	274	204
BPI Century Tokyo Lease and Finance Corporation	329	329	-	-	329	329
FGU Insurance Corporation	303	303	-	-	303	303
BPI Forex Corp.	195	195	-	-	195	195
BPI Express Remittance Corp. USA	191	191	-	-	191	191
BPI Family Savings Bank, Inc.	150	150	-	-	150	150
BPI Remittance Centre (HK) Ltd. (BERC HK)	132	132	-	-	132	132
First Far-East Development Corporation	91	91	-	-	91	91
Green Enterprises S.R.L. in Liquidation	54	54	-	-	54	54
FEB Stock Brokers, Inc.	26	25	-	-	26	25
BPI Computer Systems Corp.	25	23	-	-	25	23
BPI Express Remittance Spain S.A	23	26	-	-	23	26
Others	320	321	-	-	320	321
Associates	2,010	1,991	-	-	2,010	1,991
	10,330	10,241	(299)	(299)	10,031	9,942

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

In 2019, the Parent Bank made an additional capital infusion to BPHI amounting to P70 million (2018 - P60 million). Likewise, the Parent Bank in 2018, recognized impairment loss of P299 million on its investment in BPHI due financial losses incurred by BPHI's associate, AFPI, as disclosed above.

On November 21, 2018, BPI International Finance Limited (included in "Others" subsidiaries in the table above) distributed its shares in BERC HK valued at P132 million as a property dividend to the Parent Bank. BERC HK became an immediate subsidiary of the Parent Bank following the property dividend declaration.

On October 17, 2018, the Parent Bank made additional investment to BPI AMTC via transfer of contractual customer relationships (included in "Intangible assets" in Note 14) valued at P902 million.

Note 13 - Deferred Income Taxes

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

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Deferred income tax assets				
Allowance for credit and impairment losses	8,345	7,833	5,644	5,329
Pension liability	1,129	661	897	454
Provisions	394	329	313	248
Others	354	225	263	195
Total deferred income tax assets	10,222	9,048	7,117	6,226
Deferred income tax liabilities				
Unrealized gain on property appraisal	(483)	(491)	(483)	(491)
Others	(33)	(21)	19	(12)
Total deferred income tax liabilities	(516)	(512)	(464)	(503)
Deferred income tax assets, net	9,706	8,536	6,653	5,723

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

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
At January 1	8,536	8,091	5,723	5,180
Amounts recognized in statements of income	685	734	583	776
Amounts recognized in other comprehensive income	485	(289)	347	(233)
At December 31	9,706	8,536	6,653	5,723

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

	Consolidated			Parent		
	2019	2018	2017	2019	2018	2017
	(In Millions of Pesos)					
Allowance for impairment	(946)	(547)	(443)	(718)	(593)	(563)
Provisions	-	(1)	(27)	-	6	(9)
Pension	18	68	174	9	9	(65)
NOLCO	83	129	(66)	-	-	-
Others	160	(383)	(100)	126	(198)	175
	(685)	(734)	(462)	(583)	(776)	(462)

Critical accounting judgment - Realization of deferred income tax assets

Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax assets will be applied. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

Note 14 - Other Assets, net

The account at December 31 consists of the following:

	Consolidated		Parent	
	2019	2018	2019	2018
		(In Millions of Pesos)		
Intangible assets	2,797	3,070	2,435	2,416
Accounts receivable	2,358	2,761	2,218	2,509
Residual value of equipment for lease	2,781	2,601	-	-
Sundry debits	1,663	3,392	1,518	3,292
Prepaid expenses	944	1,343	578	1,007
Accrued trust and other fees	747	540	338	131
Rental deposits	734	671	623	573
Creditable withholding tax	503	408	107	79
Investment properties	156	129	143	118
Miscellaneous assets	3,239	8,108	2,260	6,853
	15,922	23,023	10,220	16,978
Allowance for impairment	(515)	(824)	(310)	(665)
	15,407	22,199	9,910	16,313

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

Miscellaneous assets include prepaid expenses, postage stamps, stationery and supplies.

The allowance for impairment as at December 31, 2019 and 2018 mainly pertains to accounts receivable. The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	Consolidated		Parent	
	2019	2018	2019	2018
		(In Millions of Pesos)		
At January 1	825	848	665	701
Provision for (reversal of) impairment losses	54	89	5	(69)
Transfer/reallocation	(38)	(34)	(36)	110
Write-off	(326)	(79)	(324)	(77)
At December 31	515	824	310	665

Other assets are expected to be realized as follows:

	Consolidated		Parent	
	2019	2018	2019	2018
	(in millions of pesos)			
Current (within 12 months)	10,089	17,143	7,632	14,434
Non-current (over 12 months)	5,833	5,880	2,588	2,544
	15,922	23,023	10,220	16,978

Note 15 - Deposit Liabilities

The account at December 31 consists of:

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Demand	272,020	256,279	262,149	245,620
Savings	899,181	883,650	795,936	778,246
Time	524,142	445,817	398,373	323,341
	1,695,343	1,585,746	1,456,458	1,347,207

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

Deposit liabilities are expected to be settled as follows:

	Consolidated		Parent	
	2019	2018	2019	2018
	(in millions of pesos)			
Current (within 12 months)	796,447	602,031	711,910	534,119
Non-current (over 12 months)	898,896	983,715	744,548	813,088
	1,695,343	1,585,746	1,456,458	1,347,207

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		
	2019	2018	2017	2019	2018	2017
	(In Millions of Pesos)					
Demand	628	687	616	574	630	557
Savings	6,738	7,384	6,723	5,541	6,061	5,489
Time	21,508	13,184	9,321	15,361	8,954	5,367
	28,874	21,255	16,660	21,476	15,645	11,413

BSP reserve requirement

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

In 2018, the reserve ratio decreased to 18% from 20% following the BSP's decision to reduce the requirements. In 2019, the BSP approved further reductions in reserves which brought the requirement down to 14% effective December 6, 2019 by virtue of BSP Circular 1063. Further, the BSP requires a 4% reserve requirement for LTNCDs.

Reserves must be set aside in deposits with the BSP. As at December 31, 2019, the reserves (included in Due from BSP) amounted to P178,591 million (2018 - P214,196 million) for the BPI Group and P169,303 million (2018 - P195,883 million) for the Parent Bank. The BPI Group is in full compliance with the reserve requirement as at December 31, 2019 and 2018.

Note 16 - Bills Payable and Other Borrowed Funds

The account at December 31 consists of:

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Bills payable				
Local banks	34,364	58,810	21,810	46,761
Foreign banks	31,417	51,813	29,255	47,841
Other borrowed funds	85,056	56,278	75,464	56,278
	150,837	166,901	126,529	150,880

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 term of these bills payable is 0.90 years (2018 - 0.39 years).

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

	Consolidated		Parent	
	2019	2018	2019	2018
Private firms and local banks - Peso-denominated	2.20 - 6.67	2.75 - 7.35	2.25 - 6.25	2.75 - 5.06
Foreign banks - Foreign currency-denominated	0.63 - 4.20	1.32 - 4.20	1.45 - 3.66	1.32 - 3.26

Other borrowed funds

This represents funds raised via debt issuance programs as follows:

a) Peso Bond and Commercial Paper Program

In 2018, the Parent Bank established a Peso Bond and Commercial Paper Program in the aggregate amount of up to P50,000 million, out of which a total of P25,000 million notes were issued with a coupon of 6.7970% per annum, payable quarterly to mature on March 6, 2020. On November 20, 2019, the BOD of the Parent Bank approved to increase the size of the PBCP Program to P100,000 million.

Likewise, on November 7, 2019, the BOD of BPI Family Savings Bank, Inc. (BPI Family), a subsidiary, approved the establishment of a Peso Bond Program in the aggregate amount of P35,000 million. In line with the said program, on December 16, 2019, BPI Family issued P9,600 million with a coupon of 4.30% per annum, payable quarterly to mature on June 16, 2022.

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	Amount (In Millions of Pesos)
US\$600 million, 5-year senior unsecured fixed-rate Reg S Notes	September 4, 2018	4.25%	September 4, 2023	32,000
US\$300 million, 5-year senior unsecured fixed Rate Green Bonds	September 10, 2019	2.5%	September 10, 2024	15,572
CHF 100 million, 2-year negative-yielding Green Bonds	September 24, 2019	-	September 24, 2021	5,250

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

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

	Consolidated			Parent		
	2019	2018	2017	2019	2018	2017
	(In Millions of Pesos)					
Bills payable	3,549	2,517	1,150	2,834	2,013	885
Other borrowed funds	3,215	575	-	3,197	575	-
	6,764	3,092	1,150	6,031	2,588	885

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

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
At January 1	166,901	83,517	150,880	70,722
Additions	374,332	706,779	291,585	651,065
Maturities	(387,343)	(623,196)	(313,027)	(570,594)
Amortization of discount	(17)	121	(19)	120
Exchange differences	(3,036)	(320)	(2,890)	(433)
At December 31	150,837	166,901	126,529	150,880

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

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Current (within 12 months)	48,291	99,381	35,948	84,086
Non-current (over 12 months)	102,546	67,520	90,581	66,794
	150,837	166,901	126,529	150,880

Note 17 - Deferred Credits and Other Liabilities

The account at December 31 consists of the following:

		Consolidated		Parent	
	Notes	2019	2018	2019	2018
		(In Millions of Pesos)			
Bills purchased - contra		15,301	12,872	15,299	12,862
Lease liabilities	20,29	7,856	-	6,739	-
Accounts payable		4,738	8,096	3,078	5,635
Outstanding acceptances		3,855	2,394	3,855	2,394
Deposits on lease contracts		2,639	2,438	-	-
Other deferred credits		1,576	810	323	67
Withholding tax payable		1,062	674	892	514
Due to the Treasurer of the Philippines		947	650	827	575
Vouchers payable		51	-	51	-
Dividends payable		-	4,053	-	4,052
Miscellaneous liabilities		9,743	11,133	7,875	9,694
		47,768	43,120	38,939	35,793

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.

Miscellaneous liabilities include pension liability, insurance, 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	
	2019	2018	2019	2018
(In Millions of Pesos)				
Current (within 12 months)	36,818	41,343	36,455	34,753
Non-current (over 12 months)	10,950	1,777	2,484	1,040
	47,768	43,120	38,939	35,793

Note 18 - Capital Funds*a) Share capital*

Details of authorized share capital of the Parent Bank follow:

	2019	2018	2017
(In Millions of Pesos, except par value per share)			
Authorized capital (at P10 par value per share)			
Common shares	49,000	49,000	49,000
Preferred A shares	600	600	600
	49,600	49,600	49,600

Details of outstanding common shares are as follows:

	2019	2018	2017
	(In Number of Shares)		
Issued common shares			
At January 1	4,502,449,501	3,939,412,661	3,937,043,603
Issuance of shares during the year	4,622,143	563,036,840	2,369,058
At December 31	4,507,071,644	4,502,449,501	3,939,412,661
Subscribed common shares	7,163,739	6,341,738	5,785,721

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, 2019, 2018 and 2017, the Parent Bank has 12,396, 12,588, and 11,488 common shareholders, respectively. There are no preferred shares issued and outstanding at December 31, 2019, 2018 and 2017.

b) Reserves

The account consists of:

	Consolidated			Parent		
	2019	2018	2017	2019	2018	2017
	(In Millions of Pesos)					
General loan loss provision	4,739	3,867	-	4,739	3,867	-
Reserve for trust business	199	90	90	-	-	-
Executive stock option plan amortization	136	105	130	119	76	108
Reserve for self-insurance	34	34	34	34	34	34
	5,108	4,096	254	4,892	3,977	142

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. Accordingly, the BPI Group appropriated P4,739 million at December 31, 2019 (2018 - P3,867 million) representing the excess of GLLP over PFRS 9 loan loss provision out of surplus earnings to meet the 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 Parent Bank's regulatory net worth.

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 11, 2018	4,168,000	11,500,000
December 13, 2017	3,560,000	7,500,000
December 14, 2016	3,560,000	4,500,000
December 18, 2015	3,575,000	8,000,000

The ESOP has a three-year vesting period from grant date while the ESPP has a five-year payment period.

The exercise price for ESOP is equal to the volume weighted average of BPI share price for the 30 -trading days immediately prior to the grant date. The weighted average fair value of options granted determined using the Black-Scholes valuation model was P6.50 and P17.41 for the years ended December 31, 2018 and 2017 respectively.

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

	2019	2018	2017
At January 1	11,773,334	11,338,333	9,100,000
Granted	4,000,000	3,480,000	3,485,000
Exercised	(1,116,666)	(2,786,665)	(746,667)
Cancelled	(691,667)	(258,334)	(500,000)
At December 31	13,965,001	11,773,334	11,338,333
Exercisable	6,733,334	5,120,000	6,745,000

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 ESPP were on February 4, 2020, January 7, 2019 and February 15, 2017.

c) *Accumulated other comprehensive loss*

Details of and movements in the account are as follows:

	Consolidated			Parent		
	2019	2018	2017	2019	2018	2017
	(In Millions of Pesos)					
Fair value reserve on available-for-sale securities						
At January 1	-	(3,125)	(3,838)	-	(3,275)	(3,724)
Effect of PFRS 9 adoption	-	3,125	-	-	3,275	-
Unrealized fair value loss before tax	-	-	264	-	-	23
Amount recycled to profit or loss	-	-	447	-	-	424
Deferred income tax effect	-	-	2	-	-	2
At December 31	-	-	(3,125)	-	-	(3,275)
Fair value reserve on financial assets at FVOCI						
At January 1	(33)	-	-	69	-	-
Unrealized fair value loss before tax	(424)	(364)	-	(94)	(12)	-
Amount recycled to profit or loss	387	(390)	-	(32)	(128)	-
Effect of PFRS 9 adoption	-	757	-	-	210	-
Deferred income tax effect	(14)	(36)	-	(4)	(1)	-
At December 31	(84)	(33)	-	(61)	69	-
Share in other comprehensive income (loss) of insurance subsidiaries						
At January 1	(36)	45	(158)	-	-	-
Share in other comprehensive income (loss) for the year, before tax	389	(316)	175	-	-	-
Effect of PFRS 9 adoption	(229)	229	-	-	-	-
Deferred income tax effect	(6)	6	28	-	-	-
At December 31	118	(36)	45	-	-	-
Share in other comprehensive income (loss) of associates						
At January 1	(206)	479	1,259	-	-	-
Share in other comprehensive income (loss) for the year	1,254	(685)	(780)	-	-	-
At December 31	1,048	(206)	479	-	-	-
Translation adjustment on foreign operations						
At January 1	(704)	(678)	(804)	-	-	-
Translation differences and others	(202)	(26)	126	(124)	-	-
At December 31	(906)	(704)	(678)	(124)	-	-
Remeasurements of defined benefit obligation, net						
At January 1	(1,197)	(1,809)	(1,537)	(990)	(1,421)	(1,083)
Actuarial (losses) gains for the year	(1,851)	877	(387)	(1,508)	616	(358)
Deferred income tax effect	433	(265)	115	367	(185)	20
At December 31	(2,615)	(1,197)	(1,809)	(2,131)	(990)	(1,421)
	(2,439)	(2,176)	(5,088)	(2,316)	(921)	(4,696)

d) *Dividend declarations*

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

Date declared	Amount of dividends	
	Per share	Total (In Millions of Pesos)
<i>For the year ended December 31, 2019</i>		
May 15, 2019	0.90	4,056
November 20, 2019	0.90	4,057
		8,113
<i>For the year ended December 31, 2018</i>		
June 20, 2018	0.90	4,052
December 19, 2018	0.90	4,052
		8,104
<i>For the year ended December 31, 2017</i>		
June 15, 2017	0.90	3,545
December 15, 2017	0.90	3,546
		7,091

e) *Earnings per share (EPS)*

EPS is calculated as follows:

	Consolidated			Parent		
	2019	2018	2017	2019	2018	2017
	(In Millions of Pesos, except earnings per share amounts)					
a) Net income attributable to equity holders of the Parent Bank	28,803	23,078	22,416	26,218	15,428	22,097
b) Weighted average number of common shares outstanding during the year	4,507	4,316	3,939	4,507	4,316	3,939
c) Basic EPS (a/b)	6.39	5.35	5.69	5.82	3.57	5.61

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		
	2019	2018	2017	2019	2018	2017
	(In Millions of Pesos)					
Credit card income	3,525	3,197	2,953	3,423	3,126	2,894
Trust and asset management fees	2,868	2,818	3,516	4	-	190
Rental income	2,047	1,898	1,672	267	254	219
Gain on sale of assets	1,165	1,243	1,204	898	658	302
Dividend income	77	76	68	3,794	904	9,492
Miscellaneous income	2,310	1,155	1,380	2,101	977	1,074
	11,992	10,387	10,793	10,487	5,919	14,171

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

Miscellaneous income includes recoveries on charged-off assets and fees arising from service arrangements with customers and related parties.

Note 20 - Leases

The BPI Group (as lessee) has various lease agreements which mainly pertain to branch premises and equipment that are renewable under certain terms and conditions. Rental contracts are typically made for fixed periods of 4 to 6 years. The balances arising from these leases are presented below:

a) 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. The impact of initial adoption of PFRS 16 are summarized in Note 29.

Details of right-of-use assets and lease liabilities at December 31, 2019 are as follows:

	Note	Consolidated	Parent
		(In Millions of Pesos)	
<i>Right-of-use assets</i>	11		
Buildings and leasehold improvements		7,787	6,733
<i>Lease liabilities (included in "Deferred credits and other liabilities")</i>	17		
Current		1,485	1,251
Non-current		6,371	5,488
		7,856	6,739

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

Amounts recognized in the statement of income relating to leases:

	Note	Consolidated	Parent
		(In Millions of Pesos)	
<i>Depreciation expense</i>	11		
Buildings and leasehold improvements		1,933	1,609
Interest expense (included in "Interest expense")		398	315
Expense relating to short-term leases (included in "Occupancy and equipment-related expenses")		228	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")		55	43
		2,614	2,170

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 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.

b) Operating leases (PAS 17)

Prior to January 1, 2019, the BPI Group's lease contracts were accounted for as operating leases following the provisions of PAS 17. The rentals pertaining to branch premises (included in Occupancy and equipment-related expenses) under these lease contracts were as follows:

	Consolidated	Parent
	(In Millions of Pesos)	
2018	1,809	1,503
2017	1,495	1,211

The future minimum lease payments under non-cancellable operating leases of the BPI Group as of December 31, 2018 are as follows:

	Amount
No later than 1 year	107
Later than 1 year but no later than 5 years	214
More than 5 years	57
	378

Note 21 - Operating Expenses

Details of compensation and fringe benefits expenses are as follows:

	Consolidated			Parent		
	2019	2018	2017	2019	2018	2017
	(In Millions of Pesos)					
Salaries and wages	14,613	12,624	11,642	11,231	9,702	8,891
Retirement expense (Note 23)	631	755	720	536	608	574
Other employee benefit expenses	2,243	1,936	1,535	1,712	1,524	1,226
	17,487	15,315	13,897	13,479	11,834	10,691

Details of other operating expenses are as follows:

	Consolidated			Parent		
	2019	2018	2017	2019	2018	2017
	(In Millions of Pesos)					
Insurance	4,162	4,105	3,940	2,861	2,789	2,448
Advertising	1,492	1,310	1,215	1,316	1,123	1,002
Travel and communication	1,203	1,002	902	974	825	748
Management and other professional fees	506	606	501	388	626	419
Supervision and examination fees	653	587	542	506	441	401
Litigation expenses	558	526	598	308	255	348
Taxes and licenses	492	791	714	657	539	491
Office supplies	480	592	328	389	490	267
Amortization expense	311	293	296	30	11	289
Shared expenses	-	-	-	39	26	16
Others	6,610	5,329	4,256	4,590	4,132	3,197
	16,467	15,141	13,292	12,058	11,257	9,626

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

Note 22 - Income Taxes

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

	Consolidated					
	2019		2018		2017	
	Amount	Rate (%)	Amount	Rate (%)	Amount	Rate (%)
	(In Millions of Pesos)					
Statutory income tax	11,531	30.00	9,000	30.00	8,608	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	(1,553)	(4.04)	(517)	(1.72)	(696)	(2.42)
Tax-exempt income	(2,926)	(7.61)	(1,582)	(5.27)	(4,350)	(15.16)
Others, net	2,300	5.98	(231)	(0.77)	2,394	8.34
Effective income tax	9,352	24.33	6,670	22.24	5,956	20.76

	Parent					
	2019		2018		2017	
	Amount	Rate (%)	Amount	Rate (%)	Amount	Rate (%)
	(In Millions of Pesos)					
Statutory income tax	10,327	30.00	6,134	30.00	7,765	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	(1,445)	(4.20)	(519)	(2.54)	(606)	(2.34)
Tax-exempt income	(1,637)	(4.76)	(495)	(2.42)	(2,907)	(11.23)
Others, net	960	2.79	(103)	(0.50)	(466)	(1.80)
Effective income tax	8,205	23.83	5,017	24.54	3,786	14.63

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 determined on the same basis as in voluntary retirement.

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

Non-life insurance subsidiary

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

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

Following are the amounts recognized based on recent actuarial valuations:

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

	Consolidated		Parent	
	2019	2018	2019	2018
		(In Millions of Pesos)		
Present value of defined benefit obligation	14,892	10,892	12,545	9,171
Fair value of plan assets	(12,172)	(9,851)	(10,130)	(8,195)
Pension liability recognized in the statements of condition	2,720	1,041	2,415	976
Effect of asset ceiling	46	-	-	-
	2,766	1,041	2,415	976

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	
	2019	2018	2019	2018
		(In Millions of Pesos)		
At January 1	9,851	10,710	8,195	9,003
Contributions	861	781	715	627
Interest income	648	616	535	513
Benefit payments	(1,187)	(1,206)	(985)	(1,072)
Remeasurement - return on plan assets	1,999	(1,050)	1,665	(876)
Transfer to defined contribution plan	-	-	5	-
At December 31	12,172	9,851	10,130	8,195

The carrying values of the plan assets represent their fair value as at December 31, 2019 and 2018.

The plan assets are comprised of the following:

	Consolidated		Parent	
	2019	2018	2019	2018
		(In Millions of Pesos)		
Debt securities	3,773	3,054	3,140	2,540
Equity securities	5,721	4,630	4,761	3,852
Others	2,678	2,167	2,229	1,803
	12,172	9,851	10,130	8,195

The plan assets of the unified retirement plan include investment in BPI's common shares with aggregate fair value of P421 million at December 31, 2019 (2018 - P451 million). An officer of the Parent Bank exercises the voting rights over the plan's investment in BPI's common shares.

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

	Consolidated		Parent	
	2019	2018	2019	2018
		(In Millions of Pesos)		
At January 1	10,892	12,718	9,171	10,508
Interest cost	944	712	795	582
Current service cost	545	659	456	539
Remeasurement - change in assumptions and experience adjustment	3,698	(1,991)	3,096	(1,386)
Benefit payments	(1,187)	(1,206)	(985)	(1,072)
Transfers to defined contribution plan	-	-	12	-
At December 31	14,892	10,892	12,545	9,171

The BPI Group has no other transactions with the plan other than the regular funding contributions.

(b) Expense recognized in the statements of income

	Consolidated			Parent		
	2019	2018	2017	2019	2018	2017
		(In Millions of Pesos)				
Current service cost	545	659	619	456	539	507
Net interest cost	86	96	82	80	69	56
Settlement loss	-	-	9	-	-	9
Past service cost	-	-	(5)	-	-	(5)
	631	755	705	536	608	567

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

	Consolidated		Parent	
	2019	2018	2019	2018
Discount rate	5.57%	8.66%	5.57%	8.66%
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, 2019 for the BPI Group and the Parent Bank amount to P1,001 million and P836 million, (2018 - P659 million and P539 million, respectively) respectively. The weighted average duration of the defined benefit obligation under the BPI unified retirement plan as at December 31, 2019 is 9.65 years (2018 - 8 years).

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

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Up to one year	1,135	1,310	873	1,076
More than 1 year to 5 years	3,967	3,632	3,470	3,036
More than 5 years to 10 years	8,200	7,437	6,923	6,388
More than 10 years to 15 years	11,617	11,116	9,765	9,310
More than 15 years to 20 years	6,825	8,014	5,853	6,869
Over 20 years	25,238	27,103	19,527	21,193

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

Consolidated

2019

	Change in assumption	Impact on defined benefit obligation	
		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%

2018

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 3.34%	Increase by 3.57%
Salary growth rate	1.0%	Increase by 7.59%	Decrease by 6.73%

Parent

2019

	Change in assumption	Impact on defined benefit obligation	
		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%

2018

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 3.90%	Increase by 4.17%
Salary growth rate	1.0%	Increase by 8.86%	Decrease by 7.86%

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 statements of condition.

b) Defined contribution retirement plan

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
- 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 Republic Act ("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 is shown below:

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Fair value of plan assets	1,748	1,254	1,325	930
Present value of defined benefit obligation	(811)	(298)	(604)	(219)
	937	956	721	711
Effect of asset ceiling	945	956	721	711
	(8)	-	-	-

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

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
At January 1	298	239	219	172
Interest cost	27	15	20	10
Current service cost	59	48	40	31
Benefit payments	(56)	(20)	(41)	(18)
Remeasurement - change in assumptions and experience adjustment	483	16	366	24
At December 31	811	298	604	219

The movements in the fair value of plan assets follow:

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
At January 1	1,254	916	930	707
Contribution paid by employer	237	183	163	139
Interest income	114	62	88	48
Benefit payments	(56)	(20)	(41)	(18)
Transfer to the plan	-	-	2	54
Remeasurement - return on plan assets	199	113	183	-
At December 31	1,748	1,254	1,325	930

Total retirement expense for the year ended December 31, 2019 under the defined contribution plan for the BPI Group and Parent Bank is P142 million (2018 - P43 million) and P98 million (2018 - P27 million). The components of plan assets of the defined contributions as at December 31, 2019 are as follows:

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Debt securities	663	966	506	716
Equity securities	962	213	730	214
Others	123	75	89	-
	1,748	1,254	1,325	930

The weighted average duration of the defined contribution retirement plan for the BPI Group and Parent Bank is 20.83 years (2018 - 19 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, 2019 and 2018 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, 2019, the net asset value of trust and fund assets managed by the BPI Group through BPI AMTC amounts to P731 billion (2018 - P591 billion).

As required by the General Banking Act, BPI AMTC has deposited government securities with the BSP valued at P375 million (2018 - P349 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 Transaction 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

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	

2017			
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	59	134	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.37% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 4 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	152	197	
Ayala Group	(609)	27,553	
Key management personnel	-	-	
Other related parties	(592)	302	
	(990)	28,186	
Deposits from:			
Subsidiaries	1,111	8,349	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.23% to 0.25% Savings - 0.70% to 0.79% Time - 2.15% to 2.22%
Associates	(469)	379	
Ayala Group	(7,665)	4,541	
Key management personnel	(959)	381	
	(7,982)	13,650	

Parent

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	
2017			
	Transactions for the year	Outstanding balances	Terms and conditions
(In Millions of Pesos)			
Loans and advances from:			
Subsidiaries	59	134	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.37% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 4 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	152	197	
Ayala Group	(609)	27,553	
Key management personnel	-	-	
Other related parties	(592)	302	
	(990)	28,186	
Deposits from:			
Subsidiaries	1,098	8,243	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.21% to 0.24% Savings - 0.66% to 0.75% Time - 1.68% to 1.80%
Associates	(482)	359	
Ayala Group	(7,452)	4,528	
Key management personnel	(772)	360	
	(7,608)	13,490	

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

	2019	2018	2017
	(In Millions of Pesos)		
Interest income			
Subsidiaries	99	84	39
Associates	21	14	-
Ayala Group	2,867	1,346	966
Other related parties	44	20	15
	3,031	1,464	1,020
Other income			
Subsidiaries	2,260	1,801	1,485
Associates	1,511	1,222	977
Ayala Group	580	203	247
	4,351	3,226	2,709
Interest expense			
Subsidiaries	99	84	38
Associates	3	2	1
Ayala Group	128	119	21
Key management personnel	9	3	1
	239	208	61
Other expenses			
Subsidiaries	2,148	1,698	1,371
Associates	22	51	34
Ayala Group	435	501	319
	2,605	2,250	1,724
Retirement benefits			
Key management personnel	51	47	44
Salaries, allowances and other short-term benefits			
Key management personnel	871	800	744
Directors' remuneration	121	93	87

Parent

	2019	2018	2017
	(In Millions of Pesos)		
Interest income			
Subsidiaries	-	1	3
Associates	21	14	-
Ayala Group	2,867	1,346	966
Other related parties	44	20	15
	2,932	1,381	984
Other income			
Subsidiaries	2,157	1,620	1,433
Associates	1,272	1,035	977
Ayala Group	372	137	155
	3,801	2,792	2,565
Interest expense			
Subsidiaries	99	84	34
Associates	3	2	1
Ayala Group	123	98	20
Key management personnel	5	3	1
	230	187	56
Other expenses			
Subsidiaries	28	145	27
Ayala Group	435	501	319
	463	646	346
Retirement benefits			
Key management personnel	44	40	37
Salaries, allowances and other short-term benefits			
Key management personnel	751	697	629
Directors' remuneration	92	77	73

Other income mainly consists of rental income and revenue from service arrangements with related parties.

Other expenses mainly consist of rental expenses and management fees.

Details of DOSRI loans are as follows:

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Outstanding DOSRI loans	10,026	8,248	10,024	8,248

As at December 31, 2019, allowance for credit losses amounting to P10 million (2018 - P40 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.

Credit risk may also arise due to substantial exposures to a particular counterparty which the BPI Group manages by adopting proper risk controls and diversification strategies to prevent undue risk concentrations from excessive exposures to particular counterparties, industries, countries or regions.

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, 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 Bank's credit risk. CPRM supports the senior management in coordination with various business lending and operations units in identifying, measuring and managing credit risk.

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

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored regularly. Methodologies for measuring credit risk vary depending on several factors, including type of asset, risk measurement parameters and risk management and collection processes. Credit risk measurement is based on the probability of default of an obligor or counterparty, the loss severity given a default event and the exposure at default.

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

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

(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 probability of default 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 loan.

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 SMEs 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; 14-scale rating system with ten (10) 'pass' rating grades for SME; and 26-scale rating system with thirteen (13) pass ratings for cross-border accounts mapped based on reputable external rating agency.

The BPI Group uses the following set of classifications:

Classifications	Large corporate	Cross-border	SME
Standard monitoring	AAA to B- or unrated and based on prescribed days past due (dpd) threshold	Investment grade (IG) or Non-IG with no SICR; or based on prescribed dpd threshold	AAA to B- or unrated and based on prescribed dpd threshold
Special monitoring	CCC to C or based on prescribed dpd threshold	Non-IG with SICR but assessed to be non-impaired; based on prescribed dpd threshold	CCC to C or based on prescribed dpd threshold
Default	Adversely classified accounts (ACA) or based on prescribed dpd threshold or Item in litigation (IL)	Default, with objective evidence of impairment; or based on prescribed dpd threshold	ACA or based on prescribed dpd threshold or IL

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 probability of default (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	Credit risk grade following S&P or its equivalent
Standard monitoring	IG (AAA to BBB-)
Special monitoring	Non-IG (BB+ to C)
Default	Default (D)

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

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

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Corporate and SME loans, net	1,204,950	1,122,610	1,167,582	1,074,782
Retail loans, net	270,386	232,286	64,194	51,174
	1,475,336	1,354,896	1,231,776	1,125,956

The carrying amount of loans and advances above also represents the BPI Group's maximum exposure to credit risk.

Credit quality of loans and advances, net

The following tables contain an analysis of the credit risk exposure of each financial instrument for which an ECL allowance is recognized.

Consolidated

Corporate and SME loans

	2019				2018			
	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	1,091,916	28,701	-	1,120,617	1,034,673	23,243	-	1,057,916
Special monitoring	45,963	41,416	-	87,379	48,392	16,077	-	64,469
Default	-	-	13,091	13,091	-	-	13,564	13,564
Gross carrying amount	1,137,879	70,117	13,091	1,221,087	1,083,065	39,320	13,564	1,135,949
Loss allowance	(6,870)	(3,110)	(6,157)	(16,137)	(5,768)	(1,843)	(5,728)	(13,339)
Carrying amount	1,131,009	67,007	6,934	1,204,950	1,077,297	37,477	7,836	1,122,610

Retail loans

	2019				2018			
	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	251,736	10,638	-	262,374	217,645	8,531	-	226,176
Special monitoring	322	6,764	-	7,086	1,002	5,727	-	6,729
Default	-	-	10,763	10,763	-	-	8,944	8,944
Gross carrying amount	252,058	17,402	10,763	280,223	218,647	14,258	8,944	241,849
Loss allowance	(3,236)	(1,780)	(4,821)	(9,837)	(4,114)	(1,405)	(4,044)	(9,563)
Carrying amount	248,822	15,622	5,942	270,386	214,533	12,853	4,900	232,286

Parent

Corporate and SME loans

	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime		12-month	Lifetime	Lifetime	
	ECL	ECL	ECL		ECL	ECL	ECL	
(In Millions of Pesos)								
Credit grade								
Standard monitoring	1,064,720	25,034	-	1,089,754	995,540	22,727	-	1,018,267
Special monitoring	42,297	39,478	-	81,775	43,147	14,737	-	57,884
Default	-	-	9,824	9,824	-	-	9,772	9,772
Gross carrying amount	1,107,017	64,512	9,824	1,181,353	1,038,687	37,464	9,772	1,085,923
Loss allowance	(5,972)	(2,990)	(4,809)	(13,771)	(5,108)	(1,734)	(4,299)	(11,141)
Carrying amount	1,101,045	61,522	5,015	1,167,582	1,033,579	35,730	5,473	1,074,782

Retail loans

	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime		12-month	Lifetime	Lifetime	
	ECL	ECL	ECL		ECL	ECL	ECL	
(In Millions of Pesos)								
Credit grade								
Standard monitoring	59,732	4,277	-	64,009	51,886	338	-	52,224
Special monitoring	183	1,323	-	1,506	203	935	-	1,138
Default	-	-	3,513	3,513	-	-	2,638	2,638
Gross carrying amount	59,915	5,600	3,513	69,028	52,089	1,273	2,638	56,000
Loss allowance	(808)	(941)	(3,085)	(4,834)	(1,839)	(482)	(2,505)	(4,826)
Carrying amount	59,107	4,659	428	64,194	50,250	791	133	51,174

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

Consolidated

	2019			2018		
	Corporate and SME loans	Retail loans	Total	Corporate and SME loans	Retail loans	Total
	(In Millions of Pesos)			(In Millions of Pesos)		
Current	68,517	5,999	74,516	35,632	5,697	41,329
Past due up to 30 days	505	4,749	5,254	175	2,834	3,009
Past due 31 - 90 days	1,095	6,654	7,749	3,513	5,727	9,240
Past due 91 - 180 days	-	-	-	-	-	-
Over 180 days	-	-	-	-	-	-
	70,117	17,402	87,519	39,320	14,258	53,578

Parent

	2019			2018		
	Corporate and SME loans	Retail loans	Total	Corporate and SME loans	Retail loans	Total
	(In Millions of Pesos)			(In Millions of Pesos)		
Current	63,673	3,494	67,167	34,696	241	34,937
Past due up to 30 days	400	783	1,183	47	97	144
Past due 31 - 90 days	439	1,323	1,762	2,721	935	3,656
Past due 91 - 180 days	-	-	-	-	-	-
Over 180 days	-	-	-	-	-	-
	64,512	5,600	70,112	37,464	1,273	38,737

26.1.3.2 Treasury and other investment securities

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

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Due from BSP	207,845	225,907	181,815	202,487
Due from other banks	22,356	12,477	18,356	8,615
Interbank loans receivable and SPAR	22,570	34,323	18,364	22,659
Financial assets at FVTPL	24,032	16,483	17,688	10,346
Financial assets at FVOCI	51,079	35,531	47,009	29,993
Investment securities at amortized cost	275,105	287,571	252,006	267,497
	602,987	612,292	535,238	541,597

Credit quality of treasury and other investment securities

Consolidated

	2019				2018			
	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	207,845	-	-	207,845	225,907	-	-	225,907
Due from other banks	22,356	-	-	22,356	12,480	-	-	12,480
Interbank loans receivable and SPAR	22,561	-	-	22,561	34,306	-	-	34,306
Financial assets at FVTPL	24,032	-	-	24,032	16,483	-	-	16,483
Financial assets at FVOCI	51,079	-	-	51,079	35,531	-	-	35,531
Investment securities at amortized cost	275,105	-	-	275,105	287,573	-	-	287,573
Default Interbank loans receivable and SPAR	-	-	49	49	-	-	67	67
Gross carrying amount	602,978	-	49	603,027	612,280	-	67	612,347
Loss allowance	-	-	(40)	(40)	(5)	-	(50)	(55)
Carrying amount	602,978	-	9	602,987	612,275	-	17	612,292

Parent

	2019				2018			
	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	181,815	-	-	181,815	202,487	-	-	202,487
Due from other banks	18,356	-	-	18,356	8,615	-	-	8,615
Interbank loans receivable and SPAR	18,355	-	-	18,355	22,642	-	-	22,642
Financial assets at FVTPL	17,688	-	-	17,688	10,346	-	-	10,346
Financial assets at FVOCI	47,009	-	-	47,009	29,993	-	-	29,993
Investment securities at amortized cost	252,006	-	-	252,006	267,499	-	-	267,499
Default Interbank loans receivable and SPAR	-	-	49	49	-	-	67	67
Gross carrying amount	535,229	-	49	535,278	541,582	-	67	541,649
Loss allowance	-	-	(40)	(40)	(2)	-	(50)	(52)
Carrying amount	535,229	-	9	535,238	541,580	-	17	541,597

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	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Accounts receivable, net	1,509	1,916	1,785	1,315
Other accrued interest and fees receivable	264	671	209	573
Rental deposits	734	360	623	131
Sales contracts receivable, net	-	541	-	360
Others, net	84	2,179	150	2,047
	2,591	5,667	2,767	4,426

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

	2019				2018			
	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	389,148	3,608	-	392,756	232,257	74	-	232,331
Special monitoring	11,417	-	-	11,417	3,246	264	-	3,510
Default	-	-	411	411	-	-	63	63
Gross carrying amount	400,565	3,608	411	404,584	235,503	338	63	235,904
Loss allowance*	(506)	(104)	(40)	(650)	(710)	(30)	(13)	(753)
Carrying amount	400,059	3,504	371	403,934	234,793	308	50	235,151

*Included in "Miscellaneous liabilities" in Note 17

Parent

	2019				2018			
	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	382,750	3,374	-	386,124	229,849	69	-	229,918
Special monitoring	11,417	-	-	11,417	3,242	258	-	3,500
Default	-	-	408	408	-	-	63	63
Gross carrying amount	394,167	3,374	408	397,949	233,091	327	63	233,481
Loss allowance*	(488)	(92)	(39)	(619)	(682)	(28)	(13)	(723)
Carrying amount	393,679	3,282	369	397,330	232,409	299	50	232,758

*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

	2019			2018		
	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	13,091	6,157	6,934	13,564	5,728	7,836
Retail loans	10,763	4,821	5,942	8,944	4,044	4,900
Total credit-impaired assets	23,854	10,978	12,876	22,508	9,772	12,736
Fair value of collateral	11,662			12,611		

Parent

	2019			2018		
	Gross exposure	Impairment allowance	Carrying amount	Gross exposure	Impairment allowance	Carrying amount
	(In Millions of Pesos)					
Credit-impaired assets						
Corporate and SME loans	9,824	4,809	5,015	9,772	4,299	5,473
Retail loans	3,513	3,085	428	2,638	2,505	133
Total credit-impaired assets	13,337	7,894	5,443	12,410	6,804	5,606
Fair value of collateral	6,354			7,704		

The BPI Group acquires assets by taking possession of collaterals held as security for loans and advances. As at December 31, 2019, the BPI Group's foreclosed collaterals have carrying amount of P3,155 million (2018 - P3,363 million). The related foreclosed collaterals have aggregate fair value of P9,583 million (2018 - P9,859 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 statements of condition.

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) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognized during the period and releases for financial instruments de-recognized in the period;
- Write-offs of allowances related to assets that were written off during the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period;
- Impacts on the measurement of ECL due to changes made to models and assumptions; and
- Foreign exchange translations for assets denominated in foreign currencies and other movements.

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

Consolidated

	Stage 1	Stage 2	Stage 3	
	12-month		Lifetime	
Corporate and SME loans	ECL	Lifetime ECL	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 period	(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

	Stage 1	Stage 2	Stage 3	
	12-month		Lifetime	
Retail loans	ECL	Lifetime ECL	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 period	(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

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Corporate and SME loans				
		(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

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Retail loans				
		(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

Consolidated

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Corporate and SME loans				
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	6,905	1,136	4,372	12,413
Provision for credit losses for the year				
Transfers:				
Transfer in (out of) Stage 1	(1,344)	1,661	1,701	2,018
Transfer in (out of) Stage 2	161	(661)	161	(339)
Transfer in (out of) Stage 3	-	-	(3)	(3)
New financial assets originated	3,761	-	-	3,761
Financial assets derecognized during the period	(1,951)	(250)	(515)	(2,716)
Changes in assumptions and other movements in provision	(1,782)	(49)	331	(1,500)
	(1,155)	701	1,675	1,221
Write-offs and other movements	18	6	(319)	(295)
Loss allowance, at December 31, 2018	5,768	1,843	5,728	13,339

	Stage 1	Stage 2	Stage 3	
	12-month		Lifetime	
Retail loans	ECL	Lifetime ECL	ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	3,148	1,188	3,925	8,261
Provision for credit losses for the year				
Transfers:				
Transfer in (out of) Stage 1	(686)	983	1,866	2,163
Transfer in (out of) Stage 2	36	(509)	392	(81)
Transfer in (out of) Stage 3	18	42	(337)	(277)
New financial assets originated	861	-	-	861
Financial assets derecognized during the period	(145)	(95)	(661)	(901)
Changes in assumptions and other movements in provision	1,085	(210)	643	1,518
	1,169	211	1,903	3,283
Write-offs and other movements	(203)	6	(1,784)	(1,981)
Loss allowance, at December 31, 2018	4,114	1,405	4,044	9,563

Parent

	Stage 1	Stage 2	Stage 3	
	12-month		Lifetime	
Corporate and SME loans	ECL	Lifetime ECL	ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	6,332	1,029	3,128	10,489
Provision for credit losses for the year				
Transfers:				
Transfer in (out of) Stage 1	(1,053)	1,575	1,223	1,745
Transfer in (out of) Stage 2	133	(621)	104	(384)
Transfer in (out of) Stage 3	-	-	-	-
New financial assets originated	3,286	-	-	3,286
Financial assets derecognized during the period	(1,824)	(213)	(311)	(2,348)
Changes in assumptions and other movements in provision	(1,783)	(42)	388	(1,437)
	(1,241)	699	1,404	862
Write-offs and other movements	17	6	(233)	(210)
Loss allowance, at December 31, 2018	5,108	1,734	4,299	11,141

	Stage 1	Stage 2	Stage 3	
	12-month		Lifetime	
Retail loans	ECL	Lifetime ECL	ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	929	205	2,290	3,424
Provision for credit losses for the year				
Transfers:				
Transfer in (out of) Stage 1	(309)	413	1,255	1,359
Transfer in (out of) Stage 2	16	(119)	194	91
Transfer in (out of) Stage 3	1	1	(22)	(20)
New financial assets originated	137	-	-	137
Financial assets derecognized during the period	(41)	(20)	(496)	(557)
Changes in assumptions and other movements in provision	1,106	2	686	1,794
	910	277	1,617	2,804
Write-offs and other movements	-	-	(1,402)	(1,402)
Loss allowance, at December 31, 2018	1,839	482	2,505	4,826

Critical accounting estimate - 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).

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

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Forward-looking scenarios

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

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 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, 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

At December 31, 2018

	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 (%)	7.0	6.4	7.3	7.3	4.1	(1.2)
Inflation rate (%)	4.1	3.2	3.5	2.7	6.1	8.8
PDST-R2 5Y (%)	7.0	6.7	6.7	6.4	8.1	10.7
US Treasury 5Y (%)	3.2	2.4	2.7	2.2	6.0	3.7
Exchange rate	54.638	57.796	53.620	52.812	55.829	66.661

Sensitivity analysis

The loan portfolios have different sensitivities to movements in macroeconomic variables, 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 P 554 million as at December 31, 2019 from the baseline scenario (2018 - P1,850 million).

Transfers between stages

Transfers from Stage 1 and Stage 2 are based on the assessment of significant increase in credit risk ('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 P1,312 million as at December 31, 2019 (2018 - P1,436 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, 2019)

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - 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, net	58,564	1,258	4,595	3,189	207,499	-	275,105
Loans and advances, net	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

Consolidated (December 31, 2018)

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
	(In Millions of Pesos)						
Due from BSP	225,907	-	-	-	-	-	225,907
Due from other banks	12,480	-	-	-	-	(3)	12,477
Interbank loans receivable and SPAR	34,373	-	-	-	-	(50)	34,323
Financial assets at FVTPL	4,682	99	3	3	11,696	-	16,483
Financial assets at FVOCI	2,411	-	52	-	33,068	-	35,531
Investment securities at amortized cost, net	65,164	680	4,714	1,777	215,238	(2)	287,571
Loans and advances, net	85,441	110,627	226,604	317,595	637,531	(22,902)	1,354,896
Other financial assets	-	-	-	-	6,225	(558)	5,667
At December 31, 2018	430,458	111,406	231,373	319,375	903,758	(23,515)	1,972,855

Parent (December 31, 2019)

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - 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, net	56,942	585	4,595	3,189	186,695	-	252,006
Loans and advances, net	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

Parent (December 31, 2018)

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
	(In Millions of Pesos)						
Due from BSP	202,487	-	-	-	-	-	202,487
Due from other banks	8,615	-	-	-	-	-	8,615
Interbank loans receivable and SPAR	22,709	-	-	-	-	(50)	22,659
Financial assets at FVTPL	4,679	99	2	-	5,566	-	10,346
Financial assets at FVOCI	1,952	-	52	-	27,989	-	29,993
Investment securities at amortized cost, net	63,541	-	4,487	1,777	197,694	(2)	267,497
Loans and advances, net	83,098	57,991	219,927	182,685	598,222	(15,967)	1,125,956
Other financial assets	-	-	-	-	4,816	(390)	4,426
At December 31, 2018	387,081	58,090	224,468	184,462	834,287	(16,409)	1,671,979

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 transactions. Non-trading portfolios primarily arise from the interest rate management of the BPI Group's retail and commercial banking assets and liabilities.

The BPI Group has exposures in interest rate swaps, currency swaps and structured notes as part of its trading and position taking activities. Most derivatives while used to hedge open exposures to mitigate price risk inherent in the BPI Group's portfolios do not qualify as accounting hedges.

Value-at-Risk (VaR) measurement is an integral part of the BPI Group's market risk control system. This metric estimates, at 99% confidence level, the maximum loss that a trading portfolio may incur over a trading day. This metric indicates as well that there is 1% statistical probability that the trading portfolios' actual loss would be greater than the computed VaR. In order to ensure model soundness, the VaR is periodically subject to model validation and back testing. VaR is supplemented by other risk metrics and measurements that would provide preliminary signals to Treasury and to the management to assess the vulnerability of Bank's positions. To control the risk, the RMC sets risk limits for trading portfolios which are consistent with the 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 Bank's positions. The Bank periodically performs stress testing (price risk and liquidity risk) to assess the Bank's condition on assumed stress scenarios. Contingency plans are frequently reviewed to ensure the Bank's preparedness in the event of real stress. Results of stress tests are reviewed by Senior Management and by the RMC.

The average daily VaR for the trading portfolios are as follows:

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Local fixed-income	92	33	91	25
Foreign fixed-income	127	168	120	154
Foreign exchange	45	44	10	9
Derivatives	127	95	127	95
Equity securities	30	28	-	-
Mutual fund	5	7	-	-
	426	375	348	283

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.

As at reporting date, the BPI Group is mainly exposed to movements of US Dollar (USD) against the Philippine Peso (PhP). Volatilities caused by movement of USD against PhP are regularly monitored in line with the limits established internally.

The table below summarizes the BPI Group's exposure to foreign currency exchange rate risk at December 31.

Consolidated

	2019			2018		
	USD	Others*	Total	USD	Others*	Total
	(In Millions of Pesos)					
Financial Assets						
Cash and other cash items	3,060	285	3,345	2,742	752	3,494
Due from other banks	16,126	1,583	17,709	6,749	2,620	9,369
Interbank loans receivable and SPAR	813	132	945	6,639	146	6,785
Financial assets at FVTPL	9,149	178	9,327	8,491	119	8,610
Financial assets at FVOCI - debt securities	16,977	-	16,977	25,385	172	25,557
Investment securities at amortized cost	127,442	1,414	128,856	127,260	1,507	128,767
Loans and advances, net	149,012	7,621	156,633	145,995	4,970	150,965
Others financial assets	13,746	1,697	15,443	1,230	106	1,336
Total financial assets	336,325	12,910	349,235	324,491	10,392	334,883
Financial Liabilities						
Deposit liabilities	228,362	6,130	234,492	241,547	6,692	248,239
Derivative financial liabilities	1,438	75	1,513	1,967	118	2,085
Bills payable	80,817	482	81,299	82,692	458	83,150
Due to BSP and other banks	942	-	942	1,250	-	1,250
Manager's checks and demand drafts outstanding	316	10	326	87	61	148
Other financial liabilities	17,749	1,668	19,417			
Accounts payable	129	13	142	119	3	122
Total financial liabilities	329,753	8,378	338,131	327,662	7,332	334,994
Net on-balance sheet position	6,572	4,532	11,104	(3,171)	3,060	(111)

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

Parent

	2019			2018		
	USD	Others*	Total	USD	Others*	Total
(In Millions of Pesos)						
Financial Assets						
Cash and other cash items	2,858	284	3,142	2,552	751	3,303
Due from other banks	14,556	1,553	16,109	4,874	2,269	7,143
Interbank loans receivable and SPAR	-	-	-	5,260	-	5,260
Financial assets at FVTPL	6,807	78	6,885	5,144	119	5,263
Financial assets at FVOCI - debt securities	15,030	-	15,030	25,132	172	25,304
Investment securities at amortized cost	117,006	145	117,151	117,143	220	117,363
Loans and advances, net	147,803	7,148	154,951	144,486	4,787	149,273
Others financial assets	13,445	1,566	15,011	1,220	90	1,310
Total financial assets	317,505	10,774	328,279	305,811	8,408	314,219
Financial Liabilities						
Deposit liabilities	214,389	5,965	220,354	227,621	6,442	234,063
Derivative financial liabilities	1,438	75	1,513	1,967	115	2,082
Bills payable	77,749	-	77,749	79,178	-	79,178
Due to BSP and other banks	942	-	942	1,250	-	1,250
Manager's checks and demand drafts outstanding	314	10	324	81	61	142
Other financial liabilities	17,817	1,588	19,405	20,947	1,500	22,447
Accounts payable	121	12	133	117	2	119
Total financial liabilities	312,770	7,650	320,420	331,161	8,120	339,281
Net on-balance sheet position	4,735	3,124	7,859	(25,350)	288	(25,062)

*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)			
2019	+/- 1.24%	-/+ 81	-/+ 59
2018	+/- 1.92%	-/+ 71	-/+ 95

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

Interest rate risk in the banking book (IRRBB) is the current and prospective risk to the Bank's capital and earnings arising from the adverse movements in interest rates that affect its banking book positions. Excessive levels of interest rate risks in the banking book can pose a significant threat to the Bank's earnings and capital base. The Bank has established comprehensive risk management policies, procedures, risk limits structures and employs risk measurement models supported by a robust risk management system.

Interest rate exposures from core banking activities are measured using the following earnings-based and economic value-based models: (a) Earnings-at-Risk (EaR) measures the potential deterioration in net interest income over the next 12 months due to adverse movements in interest rates, and (b) Balance Sheet Value-at-Risk (BS VaR) measures the impact on the economic value of the future cash flows in the banking book due to changes in interest rates.

Earnings-at-Risk (EaR)

The EaR is built on repricing profile of the Bank and considers principal payments only. The Bank projects interest inflows from its financial assets and interest outflows from its financial liabilities in the next 12 months as earnings are affected when interest rate moved against the Bank's position. As of December 31, 2019, the net interest income impact of movement in interest rates amounts to P2,424 million (2018 - P806 million) for the whole BPI Group and P1,986 million (2018 - P715 million) for the Parent Bank.

Balance Sheet Value-at-Risk (BSVaR)

The BSVaR model is also built on repricing gap or the difference between the amount of rate-sensitive financial assets and liabilities which considers both principal and interest payments. It is the present value of the Bank's expected net cash flows based on the current interest rates. As at December 31, the average BSVaR, computed on a monthly basis, for the banking book stood at P13,754 million (2018 - P15,507 million) for the whole BPI Group and P9,530 million (2018 - P13,483 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 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 Bank's economic value and earnings. The design of the price and EaR stress tests include steepening and flattening yield curves, parallel up/down and short rate up/down shocks. The interest rate shocks applied is calibrated for all major currencies in which the Bank has significant positions. The results of the stress test are reported to the RMC and Senior Management and are integrated into the overall risk management framework of the 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, 2019)

	Repricing				Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non- repricing	
	(In Millions of Pesos)				
As at December 31, 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	-	-	-	1,288	1,288
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	155,864	1,868,036
Total interest gap	94,740	(237,826)	(227,593)	630,813	260,134

Consolidated (December 31, 2018)

	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, 2018					
Financial Assets					
Cash and other cash items	-	-	-	43,536	43,536
Due from BSP	-	-	-	225,907	225,907
Due from other banks	-	-	-	12,477	12,477
Interbank loans receivable and SPAR	-	-	-	34,323	34,323
Financial assets at FVTPL	70	1,172	1,125	14,116	16,483
Financial assets at FVOCI	-	-	-	35,531	35,531
Investment securities at amortized cost	-	1	-	287,570	287,571
Loans and advances, net	828,847	130,082	270,105	125,862	1,354,896
Other financial assets	-	-	-	5,667	5,667
Total financial assets	828,917	131,255	271,230	784,989	2,016,391
Financial Liabilities					
Deposit liabilities	602,032	831,505	152,209	-	1,585,746
Derivative financial liabilities	43	1,204	1,279	1,365	3,891
Bills payable and other borrowed funds	20,915	10,516	-	135,470	166,901
Due to BSP and other banks	-	-	-	3,988	3,988
Manager's checks and demand drafts outstanding	-	-	-	6,931	6,931
Other financial liabilities	-	-	-	19,313	19,313
Total financial liabilities	622,990	843,225	153,488	167,067	1,786,770
Total interest gap	205,927	(711,970)	117,742	617,922	229,621

Parent (December 31, 2019)

	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
(In Millions of Pesos)					
As at December 31, 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	-	-	-	1,288	1,288
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	125,384	1,598,374
Total interest gap	113,061	(225,618)	(185,450)	515,396	217,389

Parent (December 31, 2018)

	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
(In Millions of Pesos)					
As at December 31, 2018					
Financial Assets					
Cash and other cash items	-	-	-	42,419	42,419
Due from BSP	-	-	-	202,487	202,487
Due from other banks	-	-	-	8,615	8,615
Interbank loans receivable and SPAR	-	-	-	22,659	22,659
Financial assets at FVTPL	70	1,172	1,125	7,979	10,346
Financial assets at FVOCI	-	-	-	29,993	29,993
Investment securities at amortized cost	-	1	-	267,496	267,497
Loans and advances, net	757,320	81,133	224,477	63,026	1,125,956
Other financial assets	-	-	-	4,426	4,426
Total financial assets	757,390	82,306	225,602	649,100	1,714,398
Financial Liabilities					
Deposit liabilities	534,119	708,636	104,452	-	1,347,207
Derivative financial liabilities	43	1,204	1,279	1,362	3,888
Bills payable and other borrowed funds	20,915	10,516	-	119,449	150,880
Due to BSP and other banks	-	-	-	3,988	3,988
Manager's checks and demand drafts outstanding	-	-	-	5,354	5,354
Other financial liabilities	-	-	-	13,408	13,408
Total financial liabilities	555,077	720,356	105,731	143,561	1,524,725
Total interest gap	202,313	(638,050)	119,871	505,539	189,673

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 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 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, commitment 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	
	2019	2018	2019	2018
Liquidity ratio	167.06%	160.92%	168.13%	160.10%
Net stable funding ratio	130.74%	141.99%	122.65%	139.81%
Leverage ratio	10.70%	10.43%	10.06%	9.79%
Total exposure measure	2,224,550	2,120,270	1,887,364	1,795,947

The improvement in the Parent Bank's LCR in 2019 was attained due to growing portfolio of government securities while cash, reserves and claims on the BSP make up on average 53% of the total stock of HQLA.

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 (inclusive of 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, 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	1,288	-	-	1,288
Manager's checks and demand drafts outstanding	8,299	-	-	8,299
Other financial liabilities	9,392	-	-	9,392
Total financial liabilities	864,990	416,855	585,838	1,867,683
Total maturity gap	157,412	(55,048)	281,210	383,574

Consolidated (December 31, 2018)

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
As at December 31, 2018				
Financial Assets				
Cash and other cash items	43,536	-	-	43,536
Due from BSP	225,923	-	-	225,923
Due from other banks	12,477	-	-	12,477
Interbank loans receivable and SPAR	35,028	12	135	35,175
Financial assets at FVTPL	8,740	1,231	4,170	14,141
Financial assets at FVOCI	29,154	1,601	7,730	38,485
Investment securities at amortized cost	42,442	59,550	251,643	353,635
Loans and advances, net	580,825	205,331	604,684	1,390,840
Other financial assets	5,667	-	-	5,667
Total financial assets	983,792	267,725	868,362	2,119,879
Financial Liabilities				
Deposit liabilities	923,895	878,739	195,585	1,998,219
Bills payable and other borrowed funds	97,507	77,117	475	175,099
Due to BSP and other banks	3,988	-	-	3,988
Manager's checks and demand drafts outstanding	6,931	-	-	6,931
Other financial liabilities	19,313	-	-	19,313
Total financial liabilities	1,051,634	955,856	196,060	2,203,550
Total maturity gap	(67,842)	(688,131)	672,302	(83,671)

Parent (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	1,288	-	-	1,288
Manager's checks and demand drafts outstanding	6,421	-	-	6,421
Other financial liabilities	4,801	-	-	4,801
Total financial liabilities	760,445	346,802	489,155	1,596,402
Total maturity gap	143,849	(64,358)	232,005	311,496

Parent (December 31, 2018)

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
As at December 31, 2018				
Financial Assets				
Cash and other cash items	42,419	-	-	42,419
Due from BSP	202,487	-	-	202,487
Due from other banks	8,615	-	-	8,615
Interbank loans receivable and SPAR	22,705	12	135	22,852
Financial assets at FVTPL	2,530	1,229	4,169	7,928
Financial assets at FVOCI	23,926	1,392	7,390	32,708
Investment securities at amortized cost	39,473	50,821	239,775	330,069
Loans and advances, net	520,744	145,807	479,908	1,146,459
Other financial assets, net	4,426	-	-	4,426
Total financial assets	867,325	199,261	731,377	1,797,963
Financial Liabilities				
Deposit liabilities	814,358	726,595	116,373	1,657,326
Bills payable and other borrowed funds	85,037	76,747	-	161,784
Due to BSP and other banks	3,988	-	-	3,988
Manager's checks and demand drafts outstanding	5,354	-	-	5,354
Other financial liabilities	13,408	-	-	13,408
Total financial liabilities	922,145	803,342	116,373	1,841,860
Total maturity gap	(54,820)	(604,081)	615,004	(43,897)

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

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
2019				
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)

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
(In Millions of Pesos)				
2018				
Interest rate swap contracts - held for trading				
- Inflow	99	1,285	1,317	2,701
- Outflow	(59)	(1,296)	(1,485)	(2,840)
- Net inflow	40	(11)	(168)	(139)
Non-deliverable forwards and swaps - held for trading				
- Inflow	36,071	2,103	3,680	41,854
- Outflow	(35,972)	(2,120)	(3,680)	(41,772)
- Net inflow (outflow)	99	(17)	-	82

(a) 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 and Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
(In Millions of Pesos)				
Foreign exchange derivatives - held for trading				
2019				
- Inflow	527	509	11	1,047
- Outflow	(451)	(66)	-	(517)
- Net inflow (outflow)	76	443	11	530
2018				
- Inflow	127,002	4,184	-	131,186
- Outflow	(127,082)	(4,136)	-	(131,218)
- Net inflow (outflow)	(80)	48	-	(32)
Foreign exchange derivatives - held for hedging				
- Inflow	-	5,174	-	5,174
- Outflow	-	(5,316)	-	(5,316)
- Net (outflow)	-	(142)	-	(142)

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, 2019)

	Carrying Amount	Fair value		
		Level 1	Level 2	Total
<i>Recurring measurements:</i>				
(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
<i>Non-recurring measurements:</i>				
Assets held for sale, net	3,155	-	9,583	9,583

Consolidated (December 31, 2018)

	Carrying	Fair value		
	Amount	Level 1	Level 2	Total
(In Millions of Pesos)				
Recurring measurements				
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	4,033	-	4,033	4,033
Trading assets				
- Debt securities	12,450	11,656	794	12,450
- Equity securities	238	238	-	238
Financial assets at FVOCI				
- Debt securities	35,531	35,089	442	35,531
- Equity securities	1,675	1,129	546	1,675
	53,927	48,112	5,815	53,927
Financial liabilities				
Derivative financial liabilities	3,891	-	3,891	3,891
Non-recurring measurements				
Assets held for sale, net	3,363	-	9,859	9,859

Parent Bank (December 31, 2019)

	Carrying Amount	Fair value		
		Level 1	Level 2	Total
(In Millions of Pesos)				
Recurring measurements				
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

Parent Bank (December 31, 2018)

	Carrying	Fair value		
	Amount	Level 1	Level 2	Total
(In Millions of Pesos)				
Recurring measurements				
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	4,031	-	4,031	4,031
Trading securities - debt securities	6,315	5,528	787	6,315
Financial assets at FVOCI				
- Debt securities	29,993	29,838	155	29,993
- Equity securities	590	406	184	590
	40,929	35,772	5,157	40,929
Financial liabilities				
Derivative financial liabilities	3,888	-	3,888	3,888
Non-recurring measurements				
Assets held for sale, net	455	-	3,496	3,496

There are no assets and liabilities whose fair values fall under the Level 3 category as at December 31, 2019 and 2018. Likewise, there were no transfers between Level 1 and Level 2 during the years ended December 31, 2019 and 2018.

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

Consolidated (December 31, 2019)

	Carrying Amount	Fair value		Total
		Level 1	Level 2	
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	22,570	-	22,610	22,610
Investment securities at amortized cost	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

Consolidated (December 31, 2018)

	Carrying Amount	Fair value		Total
		Level 1	Level 2	
Financial assets				
Cash and other cash items	43,536	-	43,536	43,536
Due from BSP	225,907	-	225,907	225,907
Due from other banks	12,477	-	12,480	12,480
Interbank loans receivable and SPAR	34,323	-	34,373	34,373
Investment securities at amortized cost	287,571	254,850	3,802	258,652
Loans and advances, net	1,354,896	-	1,362,803	1,362,803
Other financial assets	5,667	-	5,667	5,667
Financial liabilities				
Deposit liabilities	1,585,746	-	1,585,746	1,585,746
Bills payable and other borrowed funds	166,901	-	163,545	163,545
Due to BSP and other banks	3,988	-	3,988	3,988
Manager's checks and demand drafts outstanding	6,931	-	6,931	6,931
Other financial liabilities	19,313	-	19,313	19,313
Non-financial assets				
Investment properties	129	-	1,786	1,786

Parent Bank (December 31, 2019)

	Carrying Amount	Fair value		Total
		Level 1	Level 2	
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	18,346	-	18,405	18,405
Investment securities at amortized cost	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	1,288	-	1,288	1,288
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

Parent Bank (December 31, 2018)

	Carrying Amount	Fair value		Total
		Level 1	Level 2	
Fair values disclosed				
			(In Millions of Pesos)	
Financial assets				
Cash and other cash items	42,419	-	42,419	42,419
Due from BSP	202,487	-	202,487	202,487
Due from other banks	8,615	-	8,615	8,615
Interbank loans receivable and SPAR	22,659	-	22,709	22,709
Investment securities at amortized cost	267,497	236,113	3,775	239,888
Loans and advances, net	1,125,956	-	1,144,903	1,144,903
Other financial assets	4,426	-	4,426	4,426
Financial liabilities				
Deposit liabilities	1,347,207	-	1,347,207	1,347,207
Bills payable and other borrowed funds	150,880	-	150,533	150,533
Due to BSP and other banks	3,988	-	3,988	3,988
Manager's checks and demand drafts outstanding	5,354	-	5,354	5,354
Other financial liabilities	13,408	-	13,408	13,408
Non-financial assets				
Investment properties	118	-	1,786	1,786

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 Tier 1 (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	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Tier 1 capital	262,873	244,276	262,239	243,519
Tier 2 capital	14,079	13,116	11,500	10,795
Gross qualifying capital	276,952	257,392	273,739	254,314
Less: Regulatory adjustments/required deductions	24,810	23,152	72,400	68,491
Total qualifying capital	252,142	234,240	201,339	185,823
Risk weighted assets	1,568,855	1,455,746	1,347,976	1,252,790
CAR (%)	16.07	16.09	14.94	14.83
CET1 (%)	15.17	15.19	14.08	13.97

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 - 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.

29.1 Basis of preparation

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

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

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

Critical accounting estimates

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

Critical accounting judgments

- Classification of investment securities at amortized cost (Note 9)
- Realization of deferred income tax assets (Note 13)

29.2 Changes in accounting policy and disclosures

(a) New standards adopted by the BPI Group

The BPI Group has adopted the following standards effective January 1, 2019:

PFRS 16, 'Leases'

PFRS 16 replaces the guidance of PAS 17 that relate to the accounting by lessees and the recognition of almost all leases in the balance sheet. PFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the right-of-use asset) and a lease liability to pay rentals for virtually all lease contracts. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

On adoption of PFRS 16, the BPI Group recognized lease liabilities and right-of-use assets in relation to leases which had previously been classified as 'operating leases' under the principles of PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.87% and 4.25% for the Subsidiaries and BPI Parent, respectively.

The reconciliation between the operating lease commitments under PAS 17 at December 31, 2018 discounted using the BPI Group's incremental borrowing rate and the lease liability recognized as at January 1, 2019 is as follows:

	Consolidated	Parent
	(In Millions of Pesos)	
Operating lease commitments, December 31, 2018	11,896	10,161
Discounted amount using the incremental borrowing rate	8,926	7,696
Add: Finance lease liabilities recognized at December 31, 2018	-	-
Less: Short-term leases recognized on a straight-line basis as expense	228	203
Low-value leases and contracts reassessed as service agreements	54	44
Lease liability, January 1, 2019	8,644	7,449

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statements of condition as at December 31, 2018. The amount of prepaid lease payments amount to P407 million and P451 million for BPI Group and Parent Bank, respectively.

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'.

Philippine Interpretation IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after January 1, 2019)

It has been clarified previously that PAS 12, not PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

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

(b) New standards, amendments and interpretations not yet adopted by the BPI Group

The following new accounting standards and interpretations are not mandatory for December 31, 2019 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, 2022)

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 income statement 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 BPI Group is assessing the quantitative impact of PFRS 17 as of reporting date.

Likewise, the following amendments are not mandatory for December 31, 2019 reporting period and have not been early adopted by the BPI Group:

- Amendments to PAS 1, Presentation of Financial Statements and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to PFRS 3, Business Combinations
- Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures
- Revised Conceptual Framework for Financial Reporting

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

29.3 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.

29.3.1 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 29.3.2.2) 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 29.3.2.1 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.

29.3.2 Financial assets

29.3.2.1 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 ('SPPI'), 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 (SPPI)

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.

29.3.2.2 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, 2019 and 2018.

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 significant increase in credit risk (SICR)

The BPI Group compares the probabilities of default occurring over its expected life as at the reporting date with the probability of default occurring over its expected life on the date of initial recognition to determine significant increase in credit risk. 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 exposure at default 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.

Macroeconomic variables 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 probability of default, exposure at default (EAD), and loss given default (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.

29.3.3 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.

29.3.4 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.

29.3.5 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.

29.3.6 Financial liabilities

29.3.6.1 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.

29.3.6.2 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.

29.3.7 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.

29.3.8 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.

29.3.8.1 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 29.3.2 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.

29.3.9 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 December 31, 2019 and 2018.

29.3.10 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.

29.3.11 Dividend income

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

29.3.12 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, 2019 and 2018, there are no financial assets and liabilities presented at net amounts due to offsetting.

29.3.13 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 with maturities of less than three months from the date of acquisition and that are subject to insignificant risk of changes in value.

29.3.14 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 statements of condition under "Interbank loans receivable and securities purchased under agreements to resell". Securities lent to counterparties are also retained in the financial statements.

29.4 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.

(b) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Interests in the equity of subsidiaries not attributable to the Parent Bank are reported in consolidated equity as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the 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. The BPI Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

If the ownership interest in an associate is reduced but significant influence is retained, a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The BPI Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in reserves is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the BPI Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the BPI Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The BPI Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the BPI Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit (loss) of an associate' in profit or loss.

Unrealized gains on transactions between the BPI Group and its associates are eliminated to the extent of the BPI Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the BPI Group.

29.5 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 is determined by comparing the proceeds with the carrying amount of the investment and recognized in profit or loss.

29.6 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).

29.7 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. Historical cost includes expenditure that is directly attributable to the acquisition of an asset which comprises its purchase price, import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the BPI Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Land is not depreciated. Depreciation for buildings and furniture and equipment is calculated using the straight-line method to allocate cost or residual values over the estimated useful lives of the assets, as follows:

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. There are no bank premises, furniture, fixtures and equipment that are fully impaired as at December 31, 2019 and 2018.

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.

29.8 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.

29.9 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.

29.10 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.

29.11 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.

29.12 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, 2019 and 2018.

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

29.13 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.

29.14 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.

29.15 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 statements 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.

29.16 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.

29.17 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.

29.18 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.

29.19 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 statements 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 statements 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 statements 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 statements 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) Profit sharing and bonus plans

The BPI Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Parent Bank's shareholders after certain adjustments. The BPI Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

29.20 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.

29.21 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.

29.22 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.

29.23 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).

29.24 Leases

29.24.1 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 statements 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
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

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

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

To determine the incremental borrowing rate, the BPI Group:

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

Lease payments are allocated between principal and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Measurement of right-of-use assets

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

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

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

Extension and termination options

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

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.

29.24.2 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.

29.25 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.

29.26 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.

29.27 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.

29.28 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 30 - 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	
	2019	2018	2019	2018
Return on average equity				
- Daily average ¹	10.97	10.21	12.51	8.50
- Simple average ²	11.12	10.75	12.62	9.15
Return on average assets				
- Daily average ³	1.38	1.20	1.50	0.96
- Simple average ⁴	1.34	1.16	1.45	0.92
Net interest margin				
- Daily average ⁵	3.35	3.11	3.18	2.87
- Simple average ⁶	3.26	2.96	3.08	2.72

¹Net income divided by average total equity for the period indicated. Average equity is based on the daily average balance of equity for the years ended December 31, 2019 and 2018.

²Net income divided by average total equity for the period indicated. Average total equity is based on the year-on-year balance of equity for the years ended December 31, 2019 and 2018.

³Net income divided by average total assets as at period indicated. Average total assets is based on the daily average balance of total assets as at December 31, 2019 and 2018.

⁴Net income divided by average total assets as at period indicated. Average total assets is based on the year-on-year balance of total assets as at December 31, 2019 and 2018.

⁵Net interest income divided by average interest-earning assets. Average interest earning assets is based on the daily average balance of interest earning assets as at December 31, 2019 and 2018.

⁶Net interest income divided by average interest-earning assets. Average interest earning assets is based on the year-on-year balance of interest earning assets as at December 31, 2019 and 2018.

(ii) Description of Capital Instrument Issued

The Bank considers its common shares as capital instrument for purposes of calculating its capital adequacy ratio as at December 31, 2019 and 2018.

(iii) Significant Credit Exposures

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

	Consolidated		Parent	
	2019	2018	2019	2018
Real estate, renting and other related activities	24.37	23.08	17.77	16.00
Manufacturing	15.30	16.28	18.09	19.26
Wholesale and retail trade	11.35	12.56	12.61	14.16
Consumer	8.32	8.16	5.46	5.08
Financial institutions	10.81	6.09	12.90	7.28
Agriculture and forestry	2.87	2.74	3.40	3.26
Others	26.98	31.09	29.77	34.96
	100.00	100.00	100.00	100.00

(iv) *Breakdown of Total Loans*

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	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	278,099	220,587	138,607	97,170
Chattel mortgage	57,037	54,731	10	9
Others	148,385	172,503	146,038	168,260
	483,521	447,821	284,655	265,439
Unsecured loans	1,008,129	921,523	958,768	870,521
	1,491,650	1,369,344	1,243,423	1,135,960

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		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Performing loans	1,389,937	1,301,712	1,166,932	1,090,776
Non-performing loans (NPL)	24,835	25,391	12,174	12,985
	1,414,772	1,327,103	1,179,106	1,103,761
Allowance attributable to performing loans	(10,106)	(9,882)	(6,780)	(6,947)
Allowance attributable to NPL	(15,304)	(12,597)	(11,685)	(8,861)
	(25,410)	(22,479)	(18,465)	(15,808)
Net carrying amount	1,389,362	1,304,624	1,160,641	1,087,953

BSP Circular 941, *Amendments to Regulations on Past Due and Non-Performing Loans*, states that loans, investments, receivables, or any financial assets 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.

(v) *Information on Related Party Loans*

Details of DOSRI loans are as follows:

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Outstanding DOSRI loans	10,026	8,248	10,024	8,248
	In percentages (%)			
	Consolidated		Parent	
	2019	2018	2019	2018
% to total outstanding loans and advances	0.67	0.60	0.81	0.73
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	17.30	21.51	17.30	21.51
Past due DOSRI loans	0.01	-	0.01	-
Non-performing DOSRI loans	-	-	-	-

The BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans. At December 31, 2019 and 2018.

(vi) *Secured Liabilities and Assets Pledged as Security*

The Bank'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).

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

Credit risk exposures arising from off-balance sheet items, which are mainly composed of undrawn loan commitments and unused letters of credit, are as follows:

	Consolidated		Parent	
	2019	2018	2019	2018
	(In Millions of Pesos)			
Gross carrying amount	404,584	235,904	397,949	233,481
Loss allowance*	(650)	(753)	(619)	(723)
Carrying amount	403,934	235,151	397,330	232,758

*Included in "Miscellaneous liabilities" in Note 17

Note 31 - 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 PFRS.

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

(i) Documentary stamp tax

Documentary stamp taxes paid through the Electronic Documentary Stamp Tax System for the year ended December 31, 2019 consist of:

(In Millions of Pesos)	Amount
Deposit and loan documents	7,208
Trade finance documents	584
Mortgage documents	432
Shares of stocks	-
Others	6
	8,230

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2019 consist of:

(In Millions of Pesos)	Amount		
	Paid	Accrued	Total
Income taxes withheld on compensation	1,751	205	1,956
Withholding tax on withdrawal from decedent's account	10	2	12
Final income taxes withheld on interest on deposits and yield on deposit substitutes	3,435	252	3,687
Final income taxes withheld on income payment	642	374	1,016
Creditable income taxes withheld (expanded)	460	44	504
Fringe benefit tax	121	29	150
VAT withholding tax	39	5	44
	6,458	911	7,359

(iii) *All other local and national taxes*

All other local and national taxes paid/accrued for the year ended December 31, 2019 consist of:

(In Millions of Pesos)	Amount		
	Paid	Accrued	Total
Gross receipts tax	3,711	382	4,093
Real property tax	119	-	119
Municipal taxes	209	-	209
Others	9	-	9
	4,048	382	4,430

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.