

Accounting Treatment of the Transaction**A. If there is an increase in Net Asset Value from the exchange ratio date to the effective date**

1. BFSB to declare dividends before the merger if with Net Income for the year

Dr. Cash

Cr. Dividend Income

2. Merger of BPI and BFSB (Conso Books)

Dr. Asset of BFSB

Dr. Treasury Shares

Cr. Liabilities of BFSB

Cr. Investments in BFSB (cost + equity income)

Cr. Capital Stock

Cr. Paid in Capital

Cr. Merger Reserves

3. Merger of BPI and BFSB (Solo Parent Books)

Dr. Assets of BFSB

Dr. Treasury Shares

Cr. Liabilities of BFSB

Cr. Investments in BFSB (cost)

Cr. Capital Stock Common

Cr. Paid in Capital

Cr. Merger Reserves

Cr. Specific Equity Line

B. If there is a decrease in Net Asset Value from the exchange ratio date to the effective date

1. Merger of BPI and BFSB (Conso Books)

Dr. Asset of BFSB

Dr. Merger Reserves

Dr. Treasury Shares

Cr. Liabilities of BFSB

Cr. Investments in BFSB (cost + equity income)

Cr. Capital Stock

Cr. Paid in Capital

Cr. Specific Equity Value

2. Merger of BPI and BFSB (Solo Parent Books)

Dr. Assets of BFSB

Dr. Treasury Shares

Cr. Liabilities of BFSB

Cr. Investments in BFSB (cost)

Cr. Capital Stock Common

Cr. Paid in Capital

Cr. Merger Reserves

Cr. Specific Equity Line

BPI FAMILY SAVINGS BANK, INC.

PART I

Description of Business

BPI Family Savings Bank, Inc. (the “Bank” or “BFSB”) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on July 1, 1985 primarily to engage in, and carry on, the general business of savings and mortgage banking in accordance with the provisions of the General Banking Act.

The Bank is a wholly-owned subsidiary of Bank of the Philippine Islands (“BPI”), a universal with an expanded banking license registered in the Philippines, which is also its ultimate parent.

BFSB serves as the thrift bank and consumer lending arm of BPI. BFSB maintains its position as the Philippines' largest thrift bank with assets totaling ₱287.1 billion as of 31 December 2020.

The Bank’s registered office address, which is also its principal place of business, is located at 6th Floor, BPI Family Bank Centre, Paseo de Roxas corner Dela Rosa Sts., Makati City.

BFSB offers checking, savings accounts, and time deposit accounts in pesos and US dollars. The Bank also offers housing and auto loans and also cross-sells credit cards, personal loans, investment and insurance products of its parent bank, BPI and BPI subsidiaries and affiliates.

The Bank’s main source of revenues is interest income from loans and advances which accounted for 81 to 83% of total revenue for the past three years.

Amounts in thousands of Philippine Peso	FY 2020	FY 2019	FY 2018
NET INTEREST INCOME	10,954,787	9,604,460	10,544,872
OTHER INCOME	2,534,903	2,076,885	2,099,272
Fees and Commissions	962,523	1,340,563	1,121,838
Forex Profit and Securities Trading Gain	567,459	151,305	405,478
Net gains/(losses) on derecognition of financial assets measured at amortized cost	552,757	24	
Other Operating Income	452,164	584,993	571,956
TOTAL REVENUES	13,489,690	11,681,345	12,644,144

As of December 2020, mortgage and auto loans account for 61% and 22%, respectively, of the Bank’s total loan portfolio.

Amount in Thousands of Philippine Pesos	Dec-20	% of Total
Corporate Loans		
Large Corporate Loans	18,231,399	8.01%
Small and Medium Enterprises	17,152,052	7.54%
Retail Loans		
Real estate Mortgages	138,685,793	60.97%
Auto Loans	51,043,144	22.44%
Credit Card	2,370,828	1.04%
Others	665	0.00%
TOTAL	227,483,881	100.00%

1. Description of Products -

Deposit Products

BPI Family Savings Bank offers checking and savings accounts, along with time deposits in pesos and U.S. dollars. BFSB regards a deposit as the primary entry point of its relationship with clients, and the deposit base as a significant channel to which it markets its loan products.

Housing Loans

The Bank offers loans to property buyers in the Philippines who intend to use the premises as their primary residence. The Bank's home mortgage loans have funded horizontal developments by reputable developers. The Bank also lends primarily in the middle to high-end market segment. Home mortgage loans are secured by a first mortgage on the property being purchased. In addition, the Bank generally requires residential mortgage borrowers to have an equity interest of at least 20% of the value of the property. Home mortgage loans are typically payable in monthly amortizing payments based on market-linked interest rates. The Bank may lend up to 80% of the developer selling price or the Bank's appraised value of houses and lots. The Bank requires home mortgage borrowers to obtain both fire insurance and mortgage redemption insurance.

As of December 31, 2020, home mortgage loans to individuals on average amount to Php 3 million. Interest rates on the Bank's home mortgage loans range from 6.88% to 8.88% over the same period. In accordance with industry practice in the Philippines, interest rates on the Bank's home mortgage loan portfolio are set at a fixed rate applicable for an initial period of between one and 15 years, depending on the maturity of the loan, which ranges from one to 25 years. Following the expiry of this initial period, the interest rate is reset at a fixed rate applicable to succeeding periods.

Auto Loans

The Bank offers loans primarily for the acquisition of new cars and only for accredited brands for which a consistent track record of after-sales service has been established. The Bank focuses its lending efforts on those brands that it believes will be able to best retain their resale value. The Bank also works with local dealers to supply financing solutions and easier access to auto loans to their customers.

As of December 31, 2020, the Bank's auto loans on average amount to Php 1 million in principal amount and have average terms of between 12 and 60 months. The applicable interest rate is generally fixed with an amortizing repayment schedule over the term of the loan. The Bank also typically lends up to 80% of the value of a new car. The maximum amount varies depending on the model and year of the car and is based on the Bank's internal assessments of the resale value. All of the Bank's auto loans are secured by a first mortgage or legal charge over the cars being purchased. As of December 31, 2020, the prevailing effective interest rates of the Bank's auto loans range from 9.0% to 10.0%, depending on the loan tenor.

SME Loans

To address the financing needs of the SME segment, the Bank provides term loans and credit lines under its Ka-Negosyo brand. On average, small business loans range from a principal amount of Php 300 thousand to Php 100 million and may be collateralized by real estate mortgages, deposits or investments.

Credit Cards

BPI Family Credit Card is positioned to cater to the family's daily necessities. The "no frills" credit card helps the family stretch its cash flow with interest rates and card maintenance fees that are among the lowest in the market. BPI Family MasterCard addresses the family's emergency cash needs by allowing cash advances of up to 30% of the credit card limit.

2. Percentage of Sales or Revenues and Net Income Contributed by Foreign Sales

Not applicable.

3. Distribution Methods of Products and Services

BFSB is a thrift bank that primarily offers retail loans and deposit products. Branch network is currently at 162 with dominant presence in Metro Manila with 98 branch; 40 are in Luzon, 14 in Visayas and 10 in Mindanao. The Bank also shares ATM network with BPI with over 2,243 ATM nationwide as of end-November 2020; 1,314 are branch based while 929 are offsite. Apart from its own branch network, BFSB leverages BPI Parent's network of 707 branches to reach potential loan clients.

BFSB's Retail Loans Centers nationwide enables it to extend lending beyond Metro Manila to key provincial areas across the Philippines. BFSB continues to cultivate long-time partnerships with the country's vehicle manufacturers, car dealers, real estate brokers to reach potential clients more effectively. Furthermore, the Bank reaches its clients through its digital platform, bpiloans.com.

4. New Product or Service

Not applicable.

5. Competitive Business Condition and Competitive Position in the Industry and Method of Competition

There are various factors that drove the growth of retail loans which are the primary products of BFSB. Among these are the sustained economic growth which averaged more than 6% in the past eight years prior to the decline posted in 2020, increase in disposable household income, and increase in population.

As of September 2020, the Thrift Banking Group has 43 banks while the Universal/Commercial Banking Group comprises of 46 banks. Among its peers BFSB is regarded as the largest thrift bank in as of September 2020. Being the retail arm of BPI, BFSB directly competes with Universal/Commercial Banks such as BDO, Metrobank, Security Bank, etc. in the Housing and Auto loans industry. As of September 2020, BFSB has 17.6% Housing Loan market share while 9.6% Auto Loans market share.

There is continuous effort to enhance our relevance to our clients and deepen customer satisfaction through enriching experiences, value-for-money products and expert financial advice.

6. Sources and Availability of Raw Materials and Names of Principal Supplier

Not applicable.

7. Dependence upon Single Customer or a Few Customer

No single customer that exceeds the 30% single borrower's limit (SBL) of BSP.

8. Transaction with and/or Dependence on Related Parties

BFSB is a wholly-owned subsidiary of BPI.

BFSB has extended mortgage, auto and card loans to directors, officers, employees of BPI and BPI subsidiaries and affiliates.

Significant and material related party transactions reviewed, vetted and endorsed by Related Party Transaction Committee, a Board-level committee, such that these transactions are

dealt on terms no less favorable to the Bank than those generally available to an unaffiliated third-party under similar circumstances.

9. Patents, Trademarks, Licenses, Franchises, Concessions, and Royalty Agreements Held

BFSB is a registered owner for various trademarks and logos for its loans and credit cards designs.

10. Need for Government Approval on Principal Products and Services

BFSB has a license from the BSP to operate as a thrift bank. As a thrift bank, BSFB is primarily engaged in accumulating deposits and investing them by providing housing, auto and credit card loans to its chosen markets, composed mostly of small and medium enterprises and individuals.

BFBS is a product of a merger between BPI and the Family Bank and Trust Company in 1985. BFSB then registered with the SEC as a wholly-owned subsidiary of BPI and then registered with the Bureau of Domestic Trade the trade or business name of "BPI Family Bank", and acquired a goodwill and reputation under the name.

11. Effect of Existing or Probable Governmental Regulations on Business

BSP Circular 1098: Ceiling on Interest or Finance Charges for Credit Card Receivables

The BSP set a 24% per annum interest rate ceiling on all credit cards and an interest rate or finance charges on unpaid outstanding credit card balance of a cardholder that should not exceed 2% per month. This regulation aims to ease the financial burden of consumers amid the challenging economic environment caused by the Covid-19 pandemic. The regulation which covers all credit card issuers under the Credit Card Industry Regulation Law took effect on November 2020 and is subject to review by BSP every six months.

BFSB being one of the BSP Supervised Financial Institution (BSFI) implemented the provisions of BSP Circular 1098 starting November 2020.

Interest rate cap may result in slowdown of credit card loan business as the Bank may find it difficult to recover costs from lending to high-risk customers. This may likely reduce the Bank's revenue in the form of interest income, and other fees and charges.

Proposed House Bill 7967

Proposed House Bill 7967 which prescribes a maximum rate on all loans may potentially have deeper negative effect on the Bank's revenue and profitability compared to BSP Circular 1098. The proposed House Bill, which covers all loans including cash and advances, may have a significant negative effect on interest income which accounts for 80-83% of the Bank's total revenue in the past three years.

Proposed House Bill 8818

Proposed House Bill 8818 seeks to amend the Philippine Deposit Insurance Commission (PDIC) Charter to grant PDIC power to increase the maximum deposit covered by insurance to Php1 million from current Php500,000.

The proposed bill may likely increase the cost of funds and lower the net income of the Bank.

12. Research and Development Activities

Not applicable

13. Compliance with Environmental Laws

Not applicable

14. Employees

As of December 2020, BFSB has a total of 2,872 employees. 1,907 (66%) are covered by the Collective Bargaining Agreement (“CBA”) as such the remaining 965 are officers.

Some of the benefits BFSB has for its employees:

- Retirement benefit through a defined contribution plan or defined benefit retirement plans
- Car Facility for officers
- Housing, Auto and Miscellaneous Loans
- Hospitalization, Medical and Dental Benefits
- Uniform allowances
- Death or permanent disability benefit through Group Life Insurance Plan
- Loyalty Awards Incentives
- Bereavement Assistance

15. Additional Requirements as to Certain Issues or Issuers

Not applicable.

Description of Property

BFSB main office is situated at BPI Family Bank Center, Paseo de Roxas corner Dela Rosa Streets, Makati City. The center has six floors with mezzanine, penthouse/roof deck and one basement level. Total area of the lot is 2,267.00 square meters, while total floor area of the property is 9,800.90 square meters

Legal Proceedings

BFSB may have filed criminal cases against certain entities for violation the Revised Penal Code. These cases were filed in the ordinary course of business and are not expected to have a material effect the financial position of the Bank.

PART II

Market Price and Dividends

1. Market Information

BFSB common equity shares are not listed.

2. Holders

BFSB is 100% owned by BPI.

3. Dividends

BSFB has declared dividends in the two years.

On February 2020, cash dividends amounting to P3.0 billion (P300 per share) out of the Bank's unrestricted surplus payable to stockholders of record as at January 2020. The cash dividends were paid in March 2020.

On August 2019, the Bank declared cash dividends equal to P3.0 billion (P300 per share) out of the Bank's unrestricted surplus payable to stockholders of record as at July 31, 2019. The cash dividends were paid in August 2019.

There are no restrictions that limit the payment of cash dividends on common shares.

4. Recent sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction

Not applicable.

PART III

2020 Performance

For the full year 2020, BPI Family Savings Bank (BFSB) earned P 2.4B which was 42.0% lower than in 2019. Revenues increased by 15.5% and operating expenses decreased by 1.8%, leading to a 41.1% increase in pre-provisions operating profit (PPOP). The increase in PPOP was however eroded by P 5.0B loss provisions which was 15.6x of the provisions in 2019. Return on average equity (ROE) decreased from 11.8% in 2019 to 7.0% in 2020 and return on average assets (ROA) from 1.5% to 0.8% in 2019.

Revenues increased by P 1.8B or 15.5%. Net interest income rose by 14.1% or P 1.4B as spreads widened by due to lower funding cost. Non-interest income likewise increased by 22.1% or P 458M driven by P 978M higher securities trading gains, which made up for the decline in fees, commission & other income amidst fee moratoriums and lower loan transaction fees in a COVID-19 environment.

Operating expenses declined by 1.8% or P 126M driven by overhead costs which decreased by 12.6% or P 418M. The Bank saved on marketing and sales costs such as incentives to dealers, developers and brokers, events costs, and litigation expenses, given lower business activity amidst the pandemic. However, other major expense lines increased: technology costs by 13.9% or P 105M due to higher mainframe usage, and manpower by 9.4% or P 201M due to CBA increases and retirement costs.

The Bank's assets of P 287.1B were 0.7% or P 2.1B larger than in 2019, funded by deposits, mostly float. Gross loans climbed by 1.8% or P 4.0B led by housing loans, supported by CTS acquisition. Meanwhile, net loans contracted due to the increase in loan loss reserves.

Versus 2019, total liabilities stood at P 254.1B larger by 1.3% as deposits grew by P 1.6B or 0.7%. The year saw a shift from long-term time deposits to float deposits reflecting clients' higher demand for liquidity. Peso float deposits expanded by 18.5%. This was tempered by a 14.6% or P 17.4B drop in time deposits. Meanwhile, FCDU deposits increased by 3.4%.

The Bank's total Capital at P 33.0B was lower by P 1.2B or 3.5% versus last year due to P 3.0B cash dividend paid this year and actuarial losses, tempered by earnings in 2020.

2019 Performance

For the full year 2019, BPI Family Savings Bank (BFSB) posted a net income of P 4.0B which was lower by P 1.3B or 23.9% than in 2018. Core revenues declined by 8.9% or P 0.9B due to net interest margin (NIM) compression driven by upswing in deposit cost. Likewise, non-interest income went down by 1.1% or P 22M. Total revenue slid by 7.6% or P 1.0B, while operating expenses grew by P 548M or 8.5%, led by higher overhead and technology costs.

Lower profits and larger capital base led to return on average equity (ROE) decreasing to 11.7% and return on average assets (ROA) to 1.5%.

Operating expenses crept up by 8.5% or P548M due to increases across all major expense lines. Technology went up by 32.3% or P 184M driven by various digitalization initiatives such as upgrade of the Bank's core banking and loan originations system. Overhead costs increased by P 240M or 7.8% due to sales incentives and other regulatory costs. The P 58M or 8.3% hike in premises resulted from the recognition of interest expense on the lease liability. The Bank has transitioned to the new accounting standard, PFRS 16: Leases. Likewise, manpower cost increased by P 66M or 3.2% mainly from salaries and wages.

Loss provisions also increased by 61.1% or P 121M versus 2018. The Bank kept a prudent stance as it added provisions despite the year-on-year improvement in expected credit losses (ECL).

Versus 2018, the Bank's total assets of P 285B were larger by P 12.8B or 4.7% funded by a P 9.5B bond issuance. Loans, net of allowance for probable losses grew by P 12.9B or 6.2% driven by a P 15.8B or 12.2% increase in retail loans aided by CTS acquisitions. Likewise, auto loans grew by P 2.7B or 4.9%. These increases were tempered by a P 6.5B decline in commercial and SME loans.

Compared to last year, liabilities were P 12.0B or 5.0% larger due to bonds payable recorded in December. Total deposits slightly grew by P 583M or 0.3% to P 233.0B. Float deposits inched up by P 520M or 0.5% while peso time deposit was flat versus 2018.

The Bank's total capital at P 34.2B went up by P 797M or 2.4% due to accumulation of earnings. This was however tempered by a P 3.0-B cash dividend in 2019, P211M lower actuarial gains on defined benefit plan and P 18M lower marked-to-market income on FVOCI securities.

2018 Performance

BPI Family Savings Bank (BFSB) earned a P 5.3B net income for the full year 2018 - lower than last year by 4.7%, due to modest loan growth and higher operating costs. Return on average equity (ROE) stood at 17.4% and return on average assets (ROA) at 2.0%.

Total revenues shrank by P277M or 2.1% led by the P 557M decline in net interest income due a decrease in average asset base.

Meanwhile, the 15.4% or P281M growth in non-interest income tempered the decrease in core revenues. The Bank gained P 380M on the sale of long term bonds, and posted 50% higher profits on assets sold due to faster turn-over through lot sales.

Total expenses were flat, increasing by 0.2% or P17M. Operating expenses inched up by 1.4% or P 91M, while provisions for probable losses went down by 3.7% or P8M. Meanwhile, taxes decreased by P100M or 12% due to lower pre-tax income.

Compared to 2017, assets were larger by P 4.5B or 1.7% due to deposit build-up and, capital accumulation. Loans grew by 2.9% or P 5.8B, helped by the aggressive acquisition of contracts-to-sell (CTS).

Total liabilities at P 238.8B shrank by P 1.1B or .5% to P 239B due to 2018 payout of cash dividends declared in 2017. This decline in other liabilities offset the P 797M increase in total deposits. Time deposits increased P 4B driven by a P 14B or 23% surge in Plan Ahead deposits. This replaced the P 10B decline in short-term regular time deposits, as the Bank offloaded large institutional deposits to minimize concentration risk. On the other hand, float deposits decreased by P3.9B, while FCDU deposits improved slightly by P 0.6B.

Stockholders' equity increased by P 5.5B or 20.0%, on account of earnings generated for the year. The Bank also recognized P 165M lower actuarial loss on employees' retirement fund and P 120M higher marked-to-marked gains in FVOCI securities.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

There were no disagreements with Isla Lipana & Company on any matter regarding accounting principles or financial disclosures for the financial statements for years ending 2020 and 2019.

PART IV

The following are the Board of Directors and Principal Officers of BPI Family Savings Bank as of 08 March 2021:

Directors	Regular/Independent
Cezar P. Consing	Regular
Gerardo C. Ablaza, Jr.	Regular
Rebecca G. Fernando	Regular
Aurelio R. Montinola III	Regular
Mercedita S. Nollado	Regular
Antonio Jose U. Periquet	Independent
Jesus V. Razon, Jr.	Independent
Ma. Ysabel P. Sylanteng	Independent
Principal Officers	Position/Designation
Maria Cristina L. Go	President
Dennis T. Fronda	SVP
Lionel F. Leonen	Treasurer
Angela Pilar B. Maramag	Corporate Secretary

Board of Directors

Cezar P. Consing

Mr. Consing serves as Chairman of BPI's thrift bank, investment bank, UK bank, property and casualty insurance, leasing, and rental subsidiaries, and Vice Chairman of its Foundation; and is also a board director of BPI's life insurance, asset management and micro finance subsidiaries. Mr. Consing serves as President and board director of Bancnet, Inc., and board director of LGU Guarantee Corporation, three industry consortium institutions where BPI is a minority shareholder.

In March 2019, Mr. Consing was elected as President of Bankers Association of the Philippines (BAP).

Age

61, Born 1959

Nationality

Filipino

Career

Since 2013, he has been the President and Chief Executive Officer of BPI and a Senior Managing Director of Ayala Corporation, BPI's controlling shareholder.

Relevant Skills and Experience

Mr. Consing first worked for BPI, in corporate planning and corporate banking, from 1981- 1985. He worked for J.P. Morgan & Co., based in Hong Kong and Singapore, from 1985 - 2004, rising to co-head and head of the firm's investment banking business in Asia Pacific from 1997 - 2004, the last five years as President of J.P. Morgan Securities (Asia Pacific) Ltd. As a senior Managing Director of J.P. Morgan, Mr. Consing was a member of the firm's global investment banking management committee and its Asia Pacific management committee. Mr. Consing was a partner at The Rohatyn Group from 2004 - 2013, headed its Hong Kong office and its private investing business in Asia, and was a director of its real estate, and energy and infrastructure private equity investing subsidiaries.

Education

Mr. Consing received an A.B. Economics degree (Accelerated Program), magna cum laude, from De La Salle University, Manila, in 1979. At university, he was a member of the student council, the student

newspaper and the varsity track and field team. Mr. Consing obtained an M.A. in Applied Economics from the University of Michigan, Ann Arbor, in 1980.

Gerardo C. Ablaza, Jr.

Age

67, Born 1953

Nationality

Filipino

Career

Mr. Ablaza is currently a Management Consultant at the Ayala Corporation and a member of the Board of Directors in a number of Ayala's subsidiaries including PSE-listed Manila Water Company, Inc. (Non-Executive Director), AC Energy, AC Health, AC Infrastructures and Ayala Foundation.

Relevant Skills and Experience

From 1998 to April 2009, he was President and CEO of Globe Telecom, Inc. During this period, he took the company from being the fourth-ranked mobile services provider to the second-largest full-service telecom operator with a subscriber base of 25 million in 2008. From 2010 to 2017, he was the President and CEO of Manila Water Company and was responsible for overseeing the financial and operational growth within Manila Water's service areas in the Metro Manila East Zone and in its expansion areas.

In 2004, Mr. Ablaza was recognized by CNBC as the Asia Business Leader of the Year, making him the first Filipino CEO to win the award. He was also awarded by Telecom Asia as the Best Asian Telecom CEO. In 2013, he was recognized for his consistent leadership and innovation across the banking, investment, telecommunications and utility service industries through the Citi Distinguished Alumni Award for Leadership and Ingenuity. He was the first Filipino to be awarded with such an honor.

Education

Mr. Ablaza graduated summa cum laude from the De La Salle University in 1974 with a degree in Liberal Arts, major in Mathematics (Honors Program).

Rebecca G. Fernando

Age

72, Born 1948

Nationality

Filipino

Career

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

Relevant Skills and Experience

She is a Certified Public Accountant

Education

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

Aurelio R. Montinola III

Age

69, Born 1951

Nationality

Filipino

Career

Mr. Montinola served as President and Chief Executive Officer of BPI for eight years from 2005 to 2013, and BPI Family Savings Bank, Inc. for twelve years from 1992 to 2004.

Relevant Skills and Experience

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

Education

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

Mercedita S. Nollado**Age**

79, Born 1941

Nationality

Filipino

Career

Ms. Nollado was a Senior Managing Director and also served as Corporate Secretary of Ayala Corporation and Senior Counsel of the Ayala Group of Companies.

Relevant Skills and Experience

She was a member of the Board of Directors of Ayala Corporation from 2004 until September 2010. She is a CPA-Lawyer.

Education

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

Antonio Jose U. Periquet**Age**

59, Born 1961

Nationality

Filipino

Career

Mr. Periquet spent the early part of his career doing equity research, sales and trading for several firms in London, eventually joining Deutsche Bank as head of the Asian Equities desk. In 2000, he established Deutsche Regis Partners, Inc., a joint-venture with Deutsche Bank, which became the largest stockbroker in the Philippines where he as Chairman, Managing Director & Head-Research.

Relevant Skills and Experience

He also, at one time, served on three government boards: the Development Bank of the Philippines, the DBP Leasing Corp., and the Metro Rail Transit Corp.

Education

Mr. Periquet graduated from the Ateneo de Manila University with an AB Economics degree in 1982. He also holds a Master of Science degree in Economics from Oxford University and an MBA from the University of Virginia.

Jesus V. Razon, Jr.**Age**

75, Born 1946

Nationality

Filipino

Career

He also serves as a member of the Personnel Compensation Committee and the Corporate Governance Committee of BPI Direct Banko. He worked in Bank of the Philippine Islands for thirty-eight (38) years, from 1968 to 2006, with his last position as Senior Vice President. Among the several BPI subsidiaries and affiliates, Mr. Razon served as member of the Board of Directors of the following: BPI Direct Savings Bank, Inc.; BPI Operations Management Corporation; BPI Forex Corporation; Ayala General Insurance Corporation; BPI Express Remittance, Inc.; Ayala Financial & Ins. Services Corporation and Ayala Life Assurance, Inc. and Chairman of Board of BPI Paseo de Roxas Condominium Corporation.

Relevant Skills and Experience

He also served as an Independent Director of BPI Asset Management, FEU Education Foundation and BPI Globe Banko, A Savings Bank. He is currently an Independent Director of BPI Direct Banko, A Savings Bank and BPI Investment Management, Inc.

Education

Mr. Razon graduated with a degree of A.B. Economics from the Ateneo de Manila University in 1967 and obtained a Master in Management at Asian Institute of Management in 1990.

Ma. Ysabel P. Sylianteng**Age**

69, Born 1951

Nationality

Filipino

Career

She served as the Head of Customer Relationship Management Group, Head of Card Banking Division and Head of Financial Control Group and Corporate Planning for twenty-nine (29) years from 1983 to 2012.

Relevant Skills and Experience

She also served as Director of BPI Direct Savings Bank, Inc., BPI Computer Systems Corporation, BPI Operations Management Corporation, BPI Card Finance Corporation, Ayala Plans, Inc., BPI Bancassurance, Inc., BPI Express Remittance Corporation, BPI International Finance Ltd., Santiago Land Development Corporation, First Far East Development Corporation, FEB Speed International Inc., Ayala Life Insurance, Prudential Bank and Pilipinas Savings Bank. She is also an Independent Director of BPI Investment Management, Inc.

Education

Ms. Sylianteng graduated with a degree of AB-BSC Major in Accounting from the Assumption College in 1973 and obtained a Master's Degree in Business Administration at the Stanford University in 1977.

PRINCIPAL OFFICERS**Maria Cristina L. Go
President**

Filipino, 51 years old, is the President of BFSB. For 11 years, she was the Head of BPI's Payments and Unsecured Lending Group. She led initiatives and innovations that have differentiated BPI in the industry, such as leading the launch of the first EMV-compliant credit cards and instant gratification Real Thrills

Rewards program. She currently serves as the Secretary and Trustee of the Chamber of Thrift Banks, Chairman of the BPI Payments Holdings, Inc. and a Director of the Board of TransUnion Philippines.

Before joining BPI, Ms. Go was Vice President at Citibank Philippines managing the bank's Retail Bank Marketing then at Citibank Credit Cards Cross Sell Division in New York. She also worked in Ayala Land, Inc. as Head of its Market Planning and Development Division. She started her career in Procter & Gamble as Brand Assistant then promoted to Assistant Brand Manager.

She graduated magna cum laude with a degree in BS Business Administration and Accountancy from the University of the Philippines Diliman, was awarded one of the Ten Outstanding Students of the Philippines, placed first in the CPA licensure exam in 1991, and earned a Master's degree from the Harvard Business School with honors in 1996. She was also awarded as one of UP College of Business Distinguished Alumni in 2012 and one of the Most Influential Filipina Women by the Global Filipina Women's Network in 2016. She was co-President of the Harvard Club of the Philippines from 2012 to 2014 and of the Harvard Business School Club of the Philippines from 2010 to 2012, where she is currently a member of the Board of Trustees and Executive Committee, respectively.

Dennis T. Fronda
Senior Vice President

Filipino, 49 years old, and is the Division Head for the Retail Loans Group. One of the graduates of the Officership Training Program (OTP) of the Bank, he was first assigned as the Operations Officer in BPI (1996-2003). After being assigned to Naga Business Center for BPI Family Savings Bank as an Account Officer, he never looked back. It was the start of his long history with the Bank being assigned to various Business Centers, now called Retail Loans Center; from Dagupan to Visayas-Mindanao area. Before being the Division Head of Auto Loans (2018) to his current position.

Mr. Fronda received his Bachelor of Science in Accountancy degree from St. Louis University in 1994.

Lionel F. Leonen
Treasurer

52 years old, and is the Treasurer for BPI Family Savings Bank.

Mr. Leonen received his Bachelor of Science in Mechanical Engineering and Geodetic Engineering degree from the University of the Philippines, Diliman in 1995 and earned his Master in Business Administration from the same university in 1997.

Angela Pilar B. Maramag
Corporate Secretary

Filipino, 51 years old, was also appointed Corporate Secretary of BPI and various BPI subsidiaries and affiliates, including BPI Direct Banko, Inc., A Savings Bank, BPI Capital Corp., BPI Asset Management and Trust Corp., BPI Investment Management, Inc., BPI/MS Insurance Corp., and BPI Foundation.

Prior to joining BPI, Ms. Maramag was Senior Counsel at the Bank for International Settlements (BIS) in Basel, Switzerland, from 2001 to 2008, and Head of Finance and Administration at the BIS Representative Office in Hong Kong from 2008 to 2011. She was a Legal Officer at the United Nations Compensation Commission in Geneva, Switzerland, from 1998 to 2001.

Ms. Maramag was admitted to the Philippine Bar (1995) and New York State Bar (1998). She received her Master in Laws (LL.M) from the University of Chicago in 1997, Juris Doctor (J.D) in 1994 from Ateneo de Manila School of Law, and AB Honors Program in Economics in 1990 from Ateneo de Manila University.

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

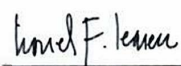
The management of BPI Family Savings Bank, Inc. (the "Bank") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2020, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

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

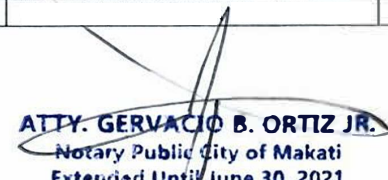
Isla Lipana & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.


Cezar P. Consing
Chairman of the Board
Maria Cristina L. Go
President
Lionel F. Leonen
Treasurer

SUBSCRIBED AND SWORN to before me at Makati City, Metro Manila this **MAR 30 2021**,
affiants exhibited to me their Passport with the following details:

Name	Passport No.	Date/Place of Issue	Valid Until
Cezar P. Consing			
Maria Cristina L. Go			
Lionel F. Leonen			

Doc. No. 700
Page No. 1
Book No. 18
Series of 2021.


ATTY. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Extended Until June 30, 2021
Per B.M. No. 3795
IBP No. 05/29-Lifetime Member
MILE Compliance No. VI-0024312
Appointment No. M-183-(2019-2020)
PTR No. 8531011 Jan 4, 2021
Makati City Roll No. 40091
101 Urban Ave. Camboor Bldg. Bldg.
Brgy. Pio del Pilar, Makati City

BPI Family Savings Bank, Inc.

Financial Statements

As at and for the years ended December 31, 2020 and 2019



Isla Lipana & Co.



Independent Auditor's Report

To the Board of Directors and Shareholder of
BPI Family Savings Bank, Inc.
6th Floor, BPI Family Bank Centre,
Paseo de Roxas corner Dela Rosa Sts.
Makati City

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of BPI Family Savings Bank, Inc. (the "Bank") as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

What we have audited

The financial statements of the Bank comprise:

- the statements of condition as at December 31, 2020 and 2019;
- the statements of income for the years ended December 31, 2020 and 2019;
- the statements of total comprehensive income for the years ended December 31, 2020 and 2019;
- the statements of changes in capital funds for the years ended December 31, 2020 and 2019;
- the statements of cash flows for the years ended December 31, 2020 and 2019; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

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

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

Independence

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

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



Independent Auditor's Report
To the Board of Directors and Shareholder of
BPI Family Savings Bank, Inc.
Page 2

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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



Independent Auditor's Report
To the Board of Directors and Shareholder of
BPI Family Savings Bank, Inc.
Page 3

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

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

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



Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Shareholder of
BPI Family Savings Bank, Inc.
Page 4

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 26 and BIR Revenue Regulations No. 15-2010 in Note 27 to the financial statements is presented for the purposes of filing with the BSP and the BIR, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of management of the Bank. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

A handwritten signature in black ink, appearing to read 'Ruth H. Blasco', with a long, sweeping flourish extending from the end of the signature.

Ruth H. Blasco

Partner

CPA Cert. No. 112595

P.T.R. No. 0018519, issued on January 5, 2021, Makati City

SEC A.N. (individual) as general auditors 112595-SEC; Category A, valid to audit 2020 to 2024
financial statements

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

TIN 235-725-236

BIR A.N. 08-000745-133-2020, issued on June 5, 2020; effective until June 4, 2023

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

Makati City
March 17, 2021

BPI Family Savings Bank, Inc.

Statements of Condition
December 31, 2020 and 2019
(All amounts in thousands of Philippine Peso)

	Notes	2020	2019
<u>RESOURCES</u>			
CASH AND OTHER CASH ITEMS	2	1,004,339	1,034,938
DUE FROM BANGKO SENTRAL NG PILIPINAS	2,3	17,846,031	23,538,280
DUE FROM OTHER BANKS	2	4,935,660	4,716,194
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	2,4	3,631,258	2,967,396
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	5	-	2,012,907
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	6	6,802,621	2,943,801
INVESTMENT SECURITIES AT AMORTIZED COST, net	7	24,233,039	20,049,310
LOANS AND ADVANCES, net	8	219,636,857	219,822,468
ASSETS HELD FOR SALE, net		2,452,159	2,652,078
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	9	1,791,553	1,764,509
DEFERRED INCOME TAX ASSETS	10	3,885,474	2,534,338
OTHER ASSETS, net	11	871,342	965,756
Total resources		287,090,333	285,001,975
<u>LIABILITIES AND CAPITAL FUNDS</u>			
DEPOSIT LIABILITIES	12	234,582,648	233,005,304
OTHER BORROWED FUNDS	13	9,544,988	9,509,728
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		1,644,409	1,857,730
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		1,734,264	1,785,407
DEFERRED CREDITS AND OTHER LIABILITIES	14	6,541,339	4,604,831
Total liabilities		254,047,648	250,763,000
CAPITAL FUNDS	15		
Share capital		1,000,000	1,000,000
Reserves		427,396	425,350
Surplus		32,622,862	33,261,543
Accumulated other comprehensive loss		(1,007,573)	(447,918)
Total capital funds		33,042,685	34,238,975
Total liabilities and capital funds		287,090,333	285,001,975

(The notes on pages 1 to 62 are an integral part of these financial statements.)

BPI Family Savings Bank, Inc.

Statements of Income
For the years ended December 31, 2020 and 2019
(All amounts in thousands of Philippine Peso)

	Notes	2020	2019
INTEREST INCOME			
On loans and advances	8	15,655,726	15,296,969
On investment securities	5,6,7	1,159,496	812,407
On deposits with BSP and other banks	2,3,4	428,040	773,540
		17,243,262	16,882,916
INTEREST EXPENSE			
On deposits	12	5,838,805	7,260,072
On other borrowed funds	13	449,670	18,384
		6,288,475	7,278,456
NET INTEREST INCOME		10,954,787	9,604,460
IMPAIRMENT LOSSES		5,000,065	320,272
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		5,954,722	9,284,188
OTHER INCOME			
Fees and commissions		962,523	1,340,563
Foreign exchange profit and securities trading gain		567,459	151,305
Net gains on disposals of investment securities measured at amortized cost	7	552,757	24
Other operating income	16	452,164	584,993
		2,534,903	2,076,885
OTHER EXPENSES			
Compensation and fringe benefits		2,348,654	2,147,319
Occupancy and equipment-related expenses		1,602,398	1,511,041
Other operating expenses	18	2,900,299	3,318,794
		6,851,351	6,977,154
INCOME BEFORE INCOME TAX		1,638,274	4,383,919
(BENEFIT FROM) PROVISION FOR INCOME TAX	19		
Current		518,326	307,046
Deferred	10	(1,241,371)	5,580
		(723,045)	312,626
NET INCOME FOR THE YEAR		2,361,319	4,071,293

(The notes on pages 1 to 62 are an integral part of these financial statements.)

BPI Family Savings Bank, Inc.

Statements of Total Comprehensive Income
For the years ended December 31, 2020 and 2019
(All amounts in thousands of Philippine Peso)

	Note	2020	2019
NET INCOME FOR THE YEAR		2,361,319	4,071,293
OTHER COMPREHENSIVE LOSS	15		
Item that may be subsequently reclassified to profit or loss			
Net change in fair value reserve on investments measured at FVOCI, net of tax effect		(54,387)	(18,303)
Item that will not be reclassified to profit or loss			
Remeasurement loss on defined benefit plan, net of tax effect		(505,268)	(210,532)
Total other comprehensive loss, net of tax effect		(559,655)	(228,835)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,801,664	3,842,458

(The notes on pages 1 to 62 are an integral part of these financial statements.)

BPI Family Savings Bank, Inc.

Statements of Changes in Capital Funds
For the years ended December 31, 2020 and 2019
(All amounts in thousands of Philippine Peso)

	Share capital (Note 15)	Reserves (Note 15)	Surplus (Note 15)	Accumulated other comprehensive loss (Note 15)	Total
Balance, January 1, 2019	1,000,000	439,162	32,190,250	(219,083)	33,410,329
Comprehensive income					
Net income for the year	-	-	4,071,293	-	4,071,293
Other comprehensive loss	-	-	-	(228,835)	(228,835)
Total comprehensive income for the year	-	-	4,071,293	(228,835)	3,842,458
Transactions with owner					
Cash dividends	-	-	(3,000,000)	-	(3,000,000)
Reserve for stock option plan	-	(13,812)	-	-	(13,812)
Balance, December 31, 2019	1,000,000	425,350	33,261,543	(447,918)	34,238,975
Comprehensive income					
Net income for the year	-	-	2,361,319	-	2,361,319
Other comprehensive loss	-	-	-	(559,655)	(559,655)
Total comprehensive income for the year	-	-	2,361,319	(559,655)	1,801,664
Transactions with owner					
Cash dividends	-	-	(3,000,000)	-	(3,000,000)
Reserve for stock option plan	-	2,046	-	-	2,046
Balance, December 31, 2020	1,000,000	427,396	32,622,862	(1,007,573)	33,042,685

(The notes on pages 1 to 62 are an integral part of these financial statements.)

BPI Family Savings Bank, Inc.

Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(All amounts in thousands of Philippine Peso)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		1,638,274	4,383,919
Adjustments for:			
Impairment losses		5,000,065	320,272
Depreciation and amortization		392,788	371,640
Share based compensation	15	2,046	(13,812)
Interest income		(17,243,262)	(16,882,916)
Interest expense	12,13,17	6,338,017	7,337,053
Interest received		17,344,774	16,742,546
Interest paid		(6,545,932)	(7,160,319)
(Increase) decrease in:			
Interbank loans receivable		(605)	3,735
Trading securities		2,010,619	1,335,941
Loans and advances, net		(4,652,673)	(13,085,248)
Assets held for sale, net		110,503	70,767
Other assets, net		12,381	154,112
Increase (decrease) in:			
Deposit liabilities		1,577,326	582,931
Manager's checks and demand drafts outstanding		(213,321)	301,771
Accrued taxes, interest and other expenses		156,053	(16,692)
Deferred credits and other liabilities		1,248,090	533,248
Net cash from (used in) operations		7,175,143	(5,021,052)
Income taxes paid		(627,372)	(530,031)
Net cash from (used in) operating activities		6,547,771	(5,551,083)
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in:			
Investment securities, net		(8,185,740)	(1,391,799)
Bank premises, furniture, fixtures and equipment, net		(77,992)	(88,181)
Investment property		-	(1,266)
Net cash used in investing activities		(8,263,732)	(1,481,246)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid	15	(3,000,000)	(3,000,000)
Payments for principal portion of lease liabilities	17	(157,777)	(156,135)
Proceeds from bills payable and other borrowed funds		35,260	9,519,728
Payments made on bills payable		-	(10,000)
Net cash (used in) from financing activities		(3,122,517)	6,353,593
NET DECREASE IN CASH AND CASH EQUIVALENTS		(4,838,478)	(678,736)
CASH AND CASH EQUIVALENTS	2		
January 1		32,255,161	32,933,897
December 31		27,416,683	32,255,161

Non-cash investing activities

9

(The notes on pages 1 to 62 are an integral part of these financial statements.)

BPI Family Savings Bank, Inc.

Notes to the Financial Statements

As at and for the years ended December 31, 2020 and 2019

(In the notes, all amounts are shown in thousands of Philippine Peso unless otherwise stated)

Note 1 - General Information

BPI Family Savings Bank, Inc. (the “Bank”) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on July 1, 1985 primarily to engage in, and carry on, the general business of savings and mortgage banking in accordance with the provisions of the General Banking Act.

The Bank is a wholly-owned subsidiary of Bank of the Philippine Islands (BPI or Parent Bank), a commercial bank with an expanded banking license registered in the Philippines, which is also its ultimate parent.

The Bank’s registered office address, which is also its principal place of business, is located at 6th Floor, BPI Family Bank Centre, Paseo de Roxas corner Dela Rosa Sts., Makati City.

As at December 31, 2020, the Bank has 2,872 regular employees (2019 - 3,083).

Coronavirus pandemic

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

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

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

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

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

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

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

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

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

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

Approval and authorization for issuance of financial statements

These financial statements have been approved and authorized for issuance by the Board of Directors on March 17, 2021.

Note 2 - Cash and Cash Equivalents

The account at December 31 consists of:

	Notes	2020	2019
Cash and other cash items		1,004,339	1,034,938
Due from Bangko Sentral ng Pilipinas	3	17,846,031	23,538,280
Due from other banks		4,935,660	4,716,194
Interbank loans receivable and securities purchased under agreements to resell (with maturity of three months or less)	4	3,630,653	2,965,749
		27,416,683	32,255,161

Interest income earned on Due from other banks for the year ended December 31, 2020 amounts to P2,020 (2019 - P2,426).

Cash and cash equivalents are classified as current as at December 31, 2020 and 2019.

Note 3 - Due from Bangko Sentral ng Pilipinas (BSP)

The account at December 31 consists of:

	2020	2019
Demand deposit account	8,346,031	9,128,280
Overnight deposit facility (ODF)	9,500,000	2,410,000
Term deposit facility (TDF)	-	12,000,000
	17,846,031	23,538,280

Total interest earned on due from BSP for the year ended December 31, 2020 amounts to P337,449 (2019 - P238,114).

Due from BSP is classified as current as at December 31, 2020 and 2019.

Note 4 - Interbank Loans Receivable and Securities Purchased under Agreements to Resell (SPAR)

The account at December 31 consists of transactions with:

	2020	2019
BSP	3,630,653	2,965,749
Accrued interest receivable	605	1,647
	3,631,258	2,967,396

Interbank loans receivable and SPAR maturing within 90 days from the date of acquisition amounting to P3,630,653 as at December 31, 2020 (2019 - P2,965,749) are classified as cash equivalents in the statement of cash flows (Note 2).

Government bonds are pledged by the BSP as collateral under reverse repurchase agreements. The face value of securities pledged is equivalent to the total balance of outstanding placements as at reporting date. All collateral agreements mature within 12 months.

The range of average effective interest rates of interbank loans receivable for the year ended December 31, 2020 is 2.00% to 4.00% (2019 - 4.06% to 5.06%).

Interest income earned on Interbank loans receivable and SPAR for the year ended December 31, 2020 amounts to P88,571 (2019 - P533,000).

Interbank loans receivable and SPAR are classified as current as at December 31, 2020 and 2019.

Note 5 - Financial Assets at Fair Value Through Profit or Loss (FVTPL)

In 2020, the Bank disposed of its entire portfolio of financial assets at FVTPL resulting in a net gain of P20,277. Disposals of financial assets at FVTPL in 2019 resulted in a net gain of P37,118.

The account at December 31, 2019 consists of government debt instruments amounting to P2,012,907. Interest income earned from financial assets at FVTPL for the year ended December 31, 2020 amounts to P1,887 (2019 - P4,393).

The Bank's FVTPL are all classified as current as at December 31, 2019.

Note 6 - Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)

Details of financial assets at FVOCI as at December 31 consist of:

	2020	2019
Debt securities		
Government securities	6,690,685	2,850,699
Accrued interest receivable	42,267	15,609
	6,732,952	2,866,308
Equity securities		
Listed	49,436	53,760
Unlisted	20,233	23,733
	69,669	77,493
Total	6,802,621	2,943,801

The Bank did not recognize any impairment charge against financial assets at FVOCI for the years ended December 31, 2020 and 2019.

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

Financial assets at FVOCI are classified as follows:

	2020	2019
Current (within 12 months)	95,679	1,331,987
Non-current (over 12 months)	6,706,942	1,611,814
	6,802,621	2,943,801

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

	2020	2019
Peso-denominated	2.26 - 4.15	1.77 - 4.63
US dollar-denominated	0.61 - 2.42	1.58 - 3.70

Interest income earned from financial assets at FVOCI for the year ended December 31, 2020 amounts to P234,527 (2019 - P70,152).

Note 7 - Investment Securities at Amortized Cost, net

Details of the account as at December 31 are as follows:

	2020	2019
Government debt securities	23,634,882	18,792,159
Commercial papers of private companies	390,654	934,186
	24,025,536	19,726,345
Accrued interest receivable	207,554	322,968
	24,233,090	20,049,313
Allowance for impairment	(51)	(3)
	24,233,039	20,049,310

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

	2020	2019
Current (within 12 months)	12,430,834	3,612,227
Non-current (over 12 months)	11,802,256	16,437,086
	24,233,090	20,049,313

The range of average effective interest rates of the Bank's investment securities at amortized cost for the years ended December 31 follows:

	2020	2019
Peso-denominated	3.36 - 4.29	3.51 - 4.31
Foreign currency-denominated	3.21 - 4.13	2.76 - 3.64

In 2020, the Bank recognized a net gain on derecognition of P552,757, due mainly to its disposal of a portfolio of debt securities to manage unanticipated credit and business risks caused by the COVID-19 pandemic. In 2019, the Bank sold an insignificant amount of debt securities, which resulted in a gain of P24.

Interest income earned from investment securities at amortized cost for the year ended December 31, 2020 amounts to P923,082 (2019 - P737,862).

Critical accounting judgment - Classification of investment securities at amortized cost

The Bank classifies its financial assets at initial recognition as to whether it will be subsequently measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss. The Bank determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets. The Bank determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest (SPPI). If the instrument fails the SPPI test, it will be measured at fair value through profit or loss.

Note 8 - Loans and Advances, net

Major classifications of this account at December 31 are as follows:

	2020	2019
Corporate loans		
Large corporate customers	18,231,399	15,027,319
Small and medium enterprises	17,152,052	17,244,259
Retail loans		
Real estate mortgages	138,685,793	135,130,180
Auto loans	51,043,144	53,788,821
Credit cards	2,370,828	2,314,754
Others	665	2,562
	227,483,881	223,507,895
Accrued interest receivable	2,418,348	2,407,759
Unearned discount/income	(170,756)	(169,524)
	229,731,473	225,746,130
Allowance for impairment	(10,094,616)	(5,923,662)
	219,636,857	219,822,468

Loans and advances are expected to be realized as follows:

	2020	2019
Current (within 12 months)	24,084,081	27,721,166
Non-current (over 12 months)	205,647,392	198,024,964
	229,731,473	225,746,130

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

	2020	2019
Secured loans		
Real estate mortgage	123,163,454	137,629,258
Chattel mortgage	51,811,293	54,922,626
Others	1,962,279	2,222,761
	176,937,026	194,774,645
Unsecured loans	50,376,099	28,563,726
	227,313,125	223,338,371

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

There are no loans and advances at December 31, 2020 and 2019 used as security for other borrowed funds (Note 13).

The range of average effective interest rates of loans and advances of the Bank for the years ended December 31 follows:

	2020	2019
Real estate mortgages	6.10 - 6.76	6.02 - 6.91
Auto loans	8.82 - 9.61	8.25 - 10.60
Commercial loans	5.83 - 8.54	5.25 - 15.17
Credit cards	11.48 - 20.70	13.67 - 18.12

Interest income earned on loans and advances for the year ended December 31, 2020 amounts to P15,656 million (2019 - P15,297 million).

Note 9 - Bank Premises, Furniture, Fixtures and Equipment, net

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

	2020			
	Land	Buildings and leasehold improvements	Furniture, fixtures and equipment	Total
Cost				
January 1, 2020	351,753	1,864,463	1,321,020	3,537,236
Additions	-	23,497	99,395	122,892
Disposals	(6,184)	(3,653)	(99,415)	(109,252)
Transfers	-	173	-	173
Other changes (Note 17)	-	344,351	-	344,351
December 31, 2020	345,569	2,228,831	1,321,000	3,895,400
Accumulated depreciation and amortization				
January 1, 2020	-	664,773	1,107,954	1,772,727
Depreciation	-	42,975	99,989	142,964
Amortization	-	11,759	-	11,759
Disposals	-	(2,110)	(54,977)	(57,087)
Other changes (Note 17)	-	233,484	-	233,484
December 31, 2020	-	950,881	1,152,966	2,103,847
Net book value, December 31, 2020	345,569	1,277,950	168,034	1,791,553

	2019			
	Land	Buildings and leasehold improvements	Furniture, fixtures and equipment	Total
Cost				
January 1, 2019	351,753	921,787	1,348,183	2,621,723
Adoption of PFRS 16 (Note 17)	-	876,259	-	876,259
January 1, 2019, as restated	351,753	1,798,046	1,348,183	3,497,982
Additions	-	72,338	92,482	164,820
Disposals	-	(5,921)	(119,645)	(125,566)
December 31, 2019	351,753	1,864,463	1,321,020	3,537,236
Accumulated depreciation and amortization				
January 1, 2019	-	416,029	1,037,825	1,453,854
Depreciation	-	243,972	118,592	362,564
Amortization	-	5,236	-	5,236
Disposals	-	(464)	(48,463)	(48,927)
December 31, 2019	-	664,773	1,107,954	1,772,727
Net book value, December 31, 2019	351,753	1,199,690	213,066	1,764,509

Following the adoption of Philippine Financial Reporting Standard (PFRS) 16, *Leases*, on January 1, 2019 the Bank has recognized right-of-use assets from long-term leases pertaining to its office premises (Note 17).

Other changes pertain to additions and remeasurement of right-of-use assets due to renewal of lease agreements, extension of lease terms and deferral of escalation clause on existing lease contracts. The impact of remeasurement is presented in Note 17.

Depreciation and amortization are included as part of Occupancy and equipment-related expenses in the statement of income. There were no impairment losses recognized for the years ended December 31, 2020 and 2019 pertaining to Bank premises, furniture, fixtures and equipment.

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

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

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

Note 10 - Deferred Income Taxes

The components of deferred income tax assets at December 31 are as follows:

	2020	2019
Allowance for impairment	3,461,169	2,166,422
Pension liability	331,366	142,237
Accrued performance bonus	38,708	57,943
Minimum corporate income tax (MCIT)	-	99,506
Net operating loss carryover (NOLCO)	-	53,683
Others	54,231	14,547
	3,885,474	2,534,338

The movements in the deferred income tax account is summarized as follows:

	2020	2019
At January 1	2,534,338	2,364,282
Amounts credited (charged) to statement of income	1,241,371	(5,580)
Amounts credited to other comprehensive income	209,271	76,130
(Application) recognition of MCIT	(99,506)	99,506
At December 31	3,885,474	2,534,338

The deferred tax charge for the years ended December 31 in the statement of income comprises the following temporary differences:

	2020	2019
Allowance for impairment	1,294,748	30,888
Others	(53,377)	(25,308)
	1,241,371	5,580

The deferred tax charge in other comprehensive income pertains to remeasurement on pension obligation.

The Bank recognized deferred income tax asset on NOLCO amounting to P53,683 for the year ended December 31, 2019 due to the expectation that it will be able to generate sufficient taxable income to take full advantage of the related tax benefits within the prescribed period. The NOLCO incurred in 2019 was fully utilized in 2020.

The Bank also recognized deferred income tax asset on excess MCIT over regular corporate income tax amounting to P99,506 for the year ended December 31, 2019. The MCIT was fully utilized in 2020.

Critical accounting judgment - Realization of deferred income tax assets

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

Note 11 - Other Assets, net

The account at December 31 consists of:

	2020	2019
Accounts receivable	330,968	277,070
Prepayments	229,693	279,336
Deferred charges	98,265	30,869
Documentary and postage stamps	95,860	144,914
Deposits on leased properties and public utilities	72,055	67,630
Creditable withholding tax	40,204	34,590
Accrued interest, fees and receivables	1,187	21,329
Miscellaneous assets	136,900	186,615
	1,005,132	1,042,353
Allowance for impairment	(133,790)	(76,597)
	871,342	965,756

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

Miscellaneous assets mainly consist of receivables still for tagging to specific client accounts. These have been subsequently posted to client accounts a day after the reporting date.

Allowance for impairment as at December 31, 2020 and 2019 mainly pertains to accounts receivable.

The changes in the allowance for impairment at December 31 are as follows:

	2020	2019
At January 1	76,597	68,795
Provision for impairment losses	61,704	9,045
Write-off	(4,511)	(1,243)
At December 31	133,790	76,597

Other assets are classified as follows:

	2020	2019
Current (within 12 months)	1,002,374	1,038,911
Non-current (over 12 months)	2,758	3,442
	1,005,132	1,042,353

Note 12 - Deposit Liabilities

The account at December 31 consists of:

	2020	2019
Demand	16,214,460	14,603,700
Savings	115,078,353	97,463,339
Time	103,289,835	120,938,265
	234,582,648	233,005,304

The above deposit liabilities include deposits placed by related parties (Note 21).

Related interest expense on deposit liabilities for the years ended December 31 is broken down as follows:

	2020	2019
Demand	52,825	61,969
Savings	839,214	954,100
Time	4,946,766	6,244,003
	5,838,805	7,260,072

Deposit liabilities are expected to be settled as follows:

	2020	2019
Current (within 12 months)	51,372,960	87,237,269
Non-current (over 12 months)	183,209,688	145,768,035
	234,582,648	233,005,304

BSP reserve requirement

Under the current and existing BSP regulations, the Bank should comply with a minimum reserve requirement on deposit and deposit substitute liabilities in local currency.

In 2019, the reserve ratio decreased to 4% from 8% following the BSP's decision to reduce the requirements. In 2020, the BSP approved the further reduction in reserves which brought the requirement down to 3% for thrift banks effective July 31, 2020 by virtue of BSP Circular 1092.

Reserves must be set aside in deposits with the BSP. As at December 31, 2020, the reserves (included in Due from BSP) amounted to P6,529,064 (2019 - P8,735,941). The Bank is in full compliance with the reserve requirement as at December 31, 2020 and 2019.

Note 13 - Other Borrowed Funds

The account at December 31, 2020 consists of other borrowed funds amounting to P9,544,988 (2019 - P9,509,728). On October 31, 2019, the BOD of the Bank approved the establishment of a Peso Bond Program in the aggregate amount of up to P35 billion. In line with the said program, on December 16, 2019, the Bank issued P9.6 billion with a coupon of 4.30% per annum, with interest payable quarterly and to mature on June 16, 2022.

Interest expense recognized for the year ended December 31, 2020 amounts to P449,670 (2019 - P18,384).

Note 14 - Deferred Credits and Other Liabilities

The account at December 31 consists of:

	Notes	2020	2019
Deferred credits		2,316,997	1,241,625
Accounts payable		1,250,976	1,108,097
Pension liability	20	1,104,553	407,917
Lease liabilities	17	891,556	716,913
Sundry credits		200,666	375,723
Dormant and unclaimed balances		151,468	99,175
Withholding tax payable		129,138	130,308
Due to the Treasurer of the Philippines		116,089	116,079
SSS, Medicare and Employees' Compensation contribution payable		6,809	7,233
Rental deposit		3,981	3,667
Philhealth contribution payable		2,567	2,280
Bills purchased - contra		956	2,617
Miscellaneous liabilities		365,583	393,197
		6,541,339	4,604,831

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

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

Following the adoption of PFRS 16 on January 1, 2019, the Bank recognized lease liabilities which have been measured at the present value of the remaining lease payments using the applicable incremental borrowing rates adopted by the Bank (Note 17).

Sundry credits pertain to collections received as at year-end still for application against the related account. These have cleared a day after the reporting date.

Dormant balances pertain to checks not yet negotiated to other parties for a period of more than a year but less than ten years. Balances which remained dormant for more than ten years are classified under unclaimed balances.

Miscellaneous liabilities include allowance for credit losses for undrawn committed credit facilities and unpaid amounts for various expenses as at year end.

Deferred credits and other liabilities are classified as follows:

	2020	2019
Current (within 12 months)	4,723,112	3,650,811
Non-current (over 12 months)	1,818,227	954,020
	6,541,339	4,604,831

Note 15 - Capital Funds

(a) Share capital (amounts per share are in absolute figures)

Details of share capital at December 31, 2020 and 2019 follow:

	Number of shares	Amount (In thousands)
Authorized common shares (at P100 par value per share)	20,000,000	2,000,000
Issued common shares	10,000,000	1,000,000

(b) Reserves

Reserves at December 31 consist of:

	2020	2019
Reserve for trust business	400,000	400,000
Reserve for self-insurance	16,650	16,650
Amortization of employee stock option plan	10,746	8,700
	427,396	425,350

The Bank's application for the reversal of reserve for trust business is still subject for approval of the BSP as at December 31, 2020.

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

(c) Accumulated other comprehensive loss

Accumulated other comprehensive loss pertains to fair value reserves on FVOCI and remeasurement gain or loss on defined benefit plan. The movements in the account for the years ended December 31 are summarized as follows:

	2020	2019
Fair value reserve on FVOCI		
At January 1	(61,171)	(42,868)
Unrealized fair value loss before tax	(70,295)	(106,169)
Amount recycled to profit or loss	13,366	87,866
Deferred income tax effect	2,543	-
At December 31	(115,557)	(61,171)
Remeasurement losses on defined benefit plan, net		
At January 1	(386,747)	(176,215)
Remeasurement loss before tax	(711,997)	(286,662)
Deferred income tax effect	206,728	76,130
At December 31	(892,016)	(386,747)
	(1,007,573)	(447,918)

(d) Surplus

As at December 31, 2020, the Bank has its surplus higher than its paid-up capital by P31.6 billion (2019 - P32.2 billion). The Bank plans to use the surplus to fund the future growth of consumer loans in accordance with the Bank's performance targets and also to serve as buffer for higher portfolio risk amidst the COVID-19 pandemic. The Bank will evaluate plans to declare dividends in 2021 after considering the regulatory capital requirements.

On February 19, 2020, the BOD declared cash dividends amounting to P3.0 billion (P300 per share) out of the Bank's unrestricted surplus payable to shareholder of record as at February 29, 2020. The cash dividends were paid in March 2020.

On August 20, 2019, the BOD declared cash dividends equal to P3.0 billion (P300 per share) out of the Bank's unrestricted surplus payable to shareholder of record as at July 31, 2019. The cash dividends were paid in August 2019.

Note 16 - Other Operating Income

The account for the years ended December 31 consists of:

	2020	2019
Profit from assets sold and exchanged	278,390	360,715
Rental income	19,382	19,128
Miscellaneous income	154,392	205,150
	452,164	584,993

Miscellaneous income includes recoveries from charged-off assets and service income earned from the sale of properties of the Parent and its other subsidiaries, which were previously managed by the Bank. There are no direct operating expenses incurred by the Bank on its rental properties.

Note 17 - Leases

The Bank leases various office spaces. Lease terms are negotiated either on a collective or individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets cannot be used as security for borrowing purposes.

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

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

The associated right-of-use assets, pertaining to office premises, were adjusted by the amount of any prepaid or accrued lease payments at initial recognition and by the depreciation recognized during the year. As at December 31, 2020, right-of-use assets amount to P784,580 (2019 - P673,713).

Additions to the right-of-use assets (Note 9) in 2020 aggregated P344,351.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate adopted by the Bank.

Movements in lease liabilities (included in Deferred credits and other liabilities) at December 31, follows:

	2020	2019
January 1	716,913	873,048
Principal and interest payments	(207,319)	(214,732)
Non-cash changes		
Additions during the year	340,926	-
Interest expense	49,542	58,597
COVID-19 related rent concessions	(8,506)	-
December 31	891,556	716,913

Maturity analysis of lease liabilities (included in Deferred credits and other liabilities) at December 31, 2020 follows:

	2020	2019
Current (within 12 months)	181,862	174,478
Non-current (over 12 months)	709,694	542,435
	891,556	716,913

The Bank's expenses related to leases and are booked as part of Occupancy and equipment-related expenses account in the statement of income for the years ended December 31 follow:

	2020	2019
Depreciation expense on right-of-use asset	233,484	202,546
Interest expense	49,542	58,597
Expense relating to short-term leases	6,905	8,249
Expense relating to leases of low-value assets that are not shown above as short-term leases	13,736	2,738
	303,667	272,130

The total cash outflow for principal portion of leases as at December 31, 2020 is P157,777 (2019 - P156,135).

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

	Amount
Rent concession (included in Miscellaneous income)	8,506
Rent escalation deferral	
Decrease in right-of-use assets	17,279
Decrease in lease liabilities	13,096

Critical accounting judgment - Determining the lease term

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

Critical accounting judgment - Determining the incremental borrowing rate

To determine the incremental borrowing rate, the Bank:

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

The Bank's weighted average incremental borrowing rates applied to the lease liabilities in 2020 range from 4.30% to 7.42% (2019 - 6.20% to 7.60%).

Note 18 - Other Operating Expenses

The account for the years ended December 31 consists of:

	2020	2019
Insurance	676,042	753,099
Regulatory examination fees	563,139	553,701
Agents' incentives	450,175	672,416
Shared operating expenses	351,159	359,671
Fines, penalties and other charges	181,232	151,197
Litigation expenses	173,013	232,718
Travel and communications	62,777	84,959
Taxes and licenses	57,527	51,778
Stationery and supplies used	41,008	44,610
Advertising and publicity	33,123	100,142
Others	311,104	314,503
	2,900,299	3,318,794

Shared operating expenses consist of audit and other operating costs incurred by the BPI Group and of which a portion is charged to the Bank.

Other operating expenses mainly consist of fees paid for representation and entertainment, membership fees and other charges.

Note 19 - Income Taxes

A reconciliation between the provision for income tax at the statutory income tax rate and the actual provision for income tax for the years ended December 31 follows:

	2020		2019	
	Amount	Rate (%)	Amount	Rate (%)
Statutory income tax	491,482	30.00	1,315,176	30.00
Effect of items not subject to statutory tax rate				
Income subjected to lower tax rates	(22,662)	(1.38)	(145,949)	(3.33)
Tax-exempt income	(1,479,329)	(90.30)	(1,290,456)	(29.44)
Others	287,464	17.55	433,855	9.90
Actual (benefit from) provision for income tax	(723,045)	(44.13)	312,626	7.13

Note 20 - Retirement Plans

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

(i) Defined benefit retirement plan

Under the Bank's defined benefit plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 200% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered at least 10 years of service, or to 150% of his basic monthly salary, if he has rendered less than 10 years of service. For voluntary retirement, the benefit is equivalent to 112.50% of the employee's basic monthly salary for a minimum of 10 years of service with the rate factor progressing to a maximum of 200% of basic monthly salary for service years of 25 or more. Death or disability benefit, on the other hand, shall be determined on the same basis as in voluntary retirement.

The net defined benefit cost and contributions to be paid by the Bank are determined by an independent actuary.

Following are the amounts recognized based on recent actuarial valuation:

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

	2020	2019
Present value of defined benefit obligation	2,205,051	2,038,132
Fair value of plan assets	(1,100,498)	(1,630,215)
Pension liability	1,104,553	407,917

Pension liability is shown under Deferred credits and other liabilities (Note 14).

The movements in plan assets are summarized as follows:

	2020	2019
At January 1	1,630,215	1,359,732
Contributions	127,541	90,659
Interest income	86,560	119,385
Benefit payments	(423,074)	(197,463)
Remeasurement - return on plan assets	(320,744)	257,902
At December 31	1,100,498	1,630,215

The carrying values of the plan assets represent their fair values as at December 31, 2020 and 2019.

The plan assets at December 31 are comprised of the following:

	2020		2019	
	Amount	%	Amount	%
Debt securities	396,179	36	640,185	39
Equity securities	451,204	41	537,156	33
Others	253,115	23	452,874	28
	1,100,498	100	1,630,215	100

Others include investments in unit investment trust funds, mutual funds and cash and cash equivalents.

The plan assets of the unified retirement plan include investment in BPI's common shares with aggregate fair value of P390 million at December 31, 2020 (2019 - P421 million). An officer of the Parent Bank exercises the voting rights over the plan's investment in BPI's common shares.

The movement in the present value of defined benefit obligation is summarized as follows:

	2020	2019
At January 1	2,038,132	1,497,552
Current service cost	108,119	73,931
Interest cost	113,524	131,485
Benefit payments	(423,074)	(197,463)
Remeasurement - changes in financial assumptions	374,154	512,082
Remeasurement - experience adjustments	(5,804)	20,545
At December 31	2,205,051	2,038,132

The Bank has no other transactions with the plan other than the contributions presented above for the years ended December 31, 2020 and 2019.

(b) Expense recognized in the statement of income for the years ended December 31:

	2020	2019
Current service cost	108,119	73,931
Net interest cost	26,964	12,100
	135,083	86,031

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

	2020	2019
Discount rate	3.95%	5.57%
Future salary increases	5.00%	5.00%

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

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

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

The Bank contributes to the plan depending on the suggested funding contribution as calculated by an independent actuary. The Bank's expected retirement contribution for the year ending December 31, 2021 amounts to P234 million. The weighted average duration of the defined benefit obligation under the Bank's retirement plan as at December 31, 2020 is 12.15 years (2019 - 9.55 years).

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

	2020	2019
Up to one year	140,557	254,757
More than 1 year to 5 years	360,637	460,569
More than 5 years to 10 years	988,861	1,016,926
More than 10 years to 15 years	1,486,510	1,559,080
More than 15 years to 20 years	745,958	844,300
Over 20 years	5,121,035	4,986,076

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

2020

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 11.00%	Increase by 13.30%
Salary growth rate	1.0%	Increase by 13.00%	Decrease by 11.00%

2019

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 4.80%	Increase by 10.80%
Salary growth rate	1.0%	Increase by 5.20%	Decrease by 9.30%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the project unit credit method at the end of the reporting period) has been applied as when calculating the retirement liability recognized within the statement of condition.

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

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

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

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

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

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

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

	2020	2019
Fair value of plan assets	197,935	266,570
Present value of defined benefit obligation	(190,163)	(102,553)
	7,772	164,017
Effect of asset ceiling	(7,772)	(164,017)
	-	-

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

	2020	2019
At January 1	102,553	39,772
Current service cost	14,428	5,350
Interest cost	5,712	3,623
Benefits payment	(8,508)	(10,288)
Remeasurement - change in assumptions and experience adjustment	75,978	64,096
At December 31	190,163	102,553

The movements in the fair value of plan assets follow:

	2020	2019
At January 1	266,570	201,891
Contributions paid by the Bank	36,950	26,032
Interest income	15,229	18,392
Benefit payments	(8,509)	(10,288)
Remeasurement - return on plan assets	(112,305)	30,543
At December 31	197,935	266,570

Total retirement expense for the year ended December 31, 2020 under the defined contribution plan amounts to P14.4 million (2019 - P5.4 million).

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

	2020		2019	
	Amount	%	Amount	%
Debt securities	51,463	26	50,195	19
Equity securities	96,988	49	146,773	55
Others	49,484	25	69,602	26
	197,935	100	266,570	100

The asset allocation of the plan is set and reviewed from time to time by the plan trustees taking into account the membership profile, the liquidity requirements of the plan and risk appetite of the Bank.

Contributions are determined based on the plan provisions. The expected contribution for the year ending December 31, 2021 amounts to P37.4 million.

The weighted average duration of the defined contribution retirement plan of the Bank as at December 31, 2020 is 24.36 years (2019 - 20.64 years).

Critical accounting estimate - Calculation of defined benefit obligation

The Bank estimates its pension benefit obligation and expense for defined benefit pension plans based on the selection of certain assumptions used by the actuaries in calculating such amounts. Those assumptions are described in this note and include, among others, the discount rate and future salary increase rate. The present value of the defined benefit obligations of the Bank at December 31, 2020 and 2019 are determined using the market yields on Philippine government bonds with terms consistent with the expected payments of employee benefits. Plan assets are invested in either equity securities, debt securities or other forms of investments. Equity markets may experience volatility, which could affect the value of pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. Actual results that differ from the Bank's assumptions are reflected as remeasurements in other comprehensive income. The assumptions are based on actual historical experience and external data regarding compensation and discount rate trends.

Note 21 - Related Party Transactions

In the normal course of business, the Bank transacts with its Parent Bank and other related entities and with its directors, officers, shareholders and related interest (DOSRI).

These transactions such as loans and advances, deposit arrangements, underwriting/advisory services and advances for operating expenses are made in the normal operating activities and have terms and conditions that are generally comparable to those offered to non-related parties and to similar transactions in the market.

Transactions with the Parent Bank include outsourcing of services related to the following activities: (a) anti-money laundering; (b) accounting and securities administration services; (c) deposit arrangements; and (d) loan operations, treasury operations, human resource-related functions and information systems.

A summary of significant related party transactions and outstanding balances as at and for the years ended December 31 is shown below:

2020			
	Transactions for the year	Outstanding balances	Terms and conditions
Deposits to Parent	221,047	4,490,901	These are demand and savings deposits with an average interest rate of 0.12% to 0.56% for Peso - denominated deposits and average interest rates of 0.13% to 0.82% for US dollar-denominated deposits.
Deposits from Parent	308,014	758,512	These are demand and savings deposits bearing the following range of average interest rates: Demand - 0.19% to 0.37% Savings - 0.37% to 0.97% Time - 3.32% to 4.17% US dollar-denominated deposits - 0.11% to 0.55%
Fellow subsidiaries	(22,148)	7,233	
	285,866	765,745	
Receivable from Parent	(734)	556	- Unsecured - Non-interest bearing - Collectible in cash at gross amount on demand
Fellow subsidiary	2,007	2,750	
	1,273	3,306	
Accounts Payable Parent			- Unsecured - Non-interest bearing - Payable in cash at gross amount on demand
	32,519	145,002	
Contributions Retirement fund	164,491	-	See Note 20.
2019			
	Transactions for the year	Outstanding balances	Terms and conditions
Deposits to Parent	1,432,526	4,269,854	These are demand and savings deposits with an average interest rate of 0.21% to 0.58% for Peso - denominated deposits and average interest rates of 0.82% to 1.13% for US dollar-denominated deposits.
Deposits from Parent	142,283	450,498	These are demand and savings deposits bearing the following range of average interest rates: Demand - 0.35% to 0.39% Savings - 0.88% to 0.95% Time - 4.20% to 4.84% US dollar-denominated deposits - 0.53% to 0.55%
Fellow subsidiaries	(34,837)	29,381	
	107,446	479,879	
Receivable from Parent	389	1,290	- Unsecured - Non-interest bearing - Collectible in cash at gross amount on demand
Fellow subsidiary	321	743	
	710	2,033	
Accounts Payable Parent	86,303	112,483	- Unsecured - Non-interest bearing - Payable in cash at gross amount on demand
Contributions Retirement fund	116,691	-	See Note 20.

There are no provisions for impairment needed to be recognized on amounts due from related parties as at December 31, 2020 and 2019. The Bank determines that the related amounts are fully collectible.

The aggregate amounts included in the determination of income before income tax that resulted from transactions with each class of related parties for the years ended December 31 are as follows:

	2020	2019
Interest income		
Parent Bank	11,460	78,290
Other income		
Parent Bank	34,701	51,332
Interest expense		
Parent Bank	-	253
Other expenses		
Parent Bank	1,024,511	922,444
Retirement benefits		
Key management personnel	5,516	5,144
Salaries, allowances and other short-term benefits		
Key management personnel	49,116	42,870
Directors' remuneration	6,090	5,770

Other income mainly consists of revenue from service arrangements with related parties in which the related outstanding balance is included under accounts receivable. Other expenses pertain to shared costs within the BPI Group and the related outstanding balance is recognized as accounts payable. The Bank has no other transaction with its retirement fund other than the contributions made to the plan as discussed in Note 20.

Details of DOSRI loans as at December 31 are as follows:

	2020	2019
Outstanding DOSRI loans	1,406	2,091

Note 22 - Financial Risk and Capital Management

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

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

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

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

22.1 Credit risk

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

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

22.1.1 Credit risk management

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

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when deemed necessary. Limits on large exposures and credit concentration are approved by the BOD through the RMC.

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

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

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

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

The Bank's forward-looking, point-in-time PD models are driven by internal forecasts of macroeconomic variables (MEVs) over the next five years. These models were previously recalibrated annually, but in view of the COVID-19 pandemic, more frequent review and update of these models were conducted starting April 2020 as MEV forecasts were revised quarterly in response to changing macroeconomic conditions. Furthermore, the pandemic was expected to dampen demand for auto and real estate collaterals and thus decrease market prices, so appropriate haircuts were applied on estimated recoveries from collaterals. These haircuts, however, did not increase the Bank's LGD as these were offset by the Bank's favorable collection experience.

Settlement risk arises in any situation where a payment in cash, securities, foreign exchange currencies, or equities is made in the expectation of a corresponding receipt in cash, securities, foreign exchange currencies, or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day. For certain securities, the introduction of the delivery versus payment facility in the local market has brought down settlement risk significantly.

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

Collateral or guarantees

One of the most traditional and common practice in mitigating credit risk is requiring security particularly for loans and advances. The Bank implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The Bank assesses the valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The common collateral types for loans and advances are:

- Mortgages over physical properties (e.g., real estate and personal); and
- Mortgages over financial assets (e.g., guarantees).

In order to minimize credit loss, the Bank seeks additional collateral from the counterparty when impairment indicators are observed for the relevant individual loans and advances.

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

22.1.2 Credit risk rating

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

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

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

The mapping of internal credit risk ratings (CRRs) with the Bank's standard account classification is shown below:

i. Corporate and Small and medium enterprise (SME) loans

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

The Bank uses the following set of classifications:

Classifications	Large Corporate loans	SME Loans
Standard monitoring	AAA to B- or unrated and based on prescribed days past due (dpd) threshold	AAA to B- or unrated and based on prescribed dpd threshold
Special monitoring	CCC to C or based on prescribed dpd threshold	CCC to C or based on prescribed dpd threshold
Default	Adversely Classified Accounts (ACA) or based on prescribed dpd threshold or Item in Litigation (IL)	ACA or based on prescribed dpd threshold or IL

ii. *Retail loans*

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

Classifications	Credit cards	Auto and housing loans
Standard monitoring	Current to 29 dpd	Current to 30 dpd
Special monitoring	30 to 89 dpd	31 to 90 dpd
Default	90 dpd and up or IL	>90, IL, Loss

iii. *Treasury and other investment debt securities*

Investments in high grade securities and bills are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements. The level of credit risk for treasury and other investment debt securities and their associated PD are determined using reputable external ratings and/or available and reliable qualitative and quantitative information. In the absence of credit ratings, a comparable issuer or guarantor rating is used. Should there be a change in the credit rating of the chosen comparable, evaluation is made to ascertain whether the rating change is applicable to the security being assessed for impairment.

Classifications	External credit rating by reputable rating agencies
Standard monitoring	Investment grade (IG) or Non-IG with no significant increase in credit risk (SICR)
Special monitoring	Non-IG with SICR but assessed to be non-impaired
Default	Default, with objective evidence of impairment

iv. *Other financial assets at amortized cost*

For other financial assets (accounts receivable, accrued interest and fees receivable, rental deposits), the Bank applies the simplified approach, as permitted by PFRS 9, in measuring ECL which uses a lifetime ECL methodology. These financial assets are grouped based on shared risk characteristics and aging profile. For some of these, impairment is assessed individually at a counterparty level.

22.1.3 Maximum exposure to credit risk

Loans and advances, net

Credit risk exposures relating to loans and advances are as follows:

	2020	2019
Corporate and SME loans, net	21,218,235	30,568,457
Retail loans, net	198,418,622	189,254,011
	219,636,857	219,822,468

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

Credit quality of loans and advances, net

Corporate and SMEs				
2020				
ECL Staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	12,288,967	306,021	-	12,594,988
Special monitoring	2,597,210	4,573,819	-	7,171,029
Default	-	-	3,592,147	3,592,147
Gross carrying amount	14,886,177	4,879,840	3,592,147	23,358,164
Loss allowance	(250,163)	(222,224)	(1,667,542)	(2,139,929)
Carrying amount	14,636,014	4,657,616	1,924,605	21,218,235
Corporate and SMEs				
2019				
ECL Staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	22,043,041	3,159,457	-	25,202,498
Special monitoring	3,443,188	1,055,785	-	4,498,973
Default	-	-	2,570,107	2,570,107
Gross carrying amount	25,486,229	4,215,242	2,570,107	32,271,578
Loss allowance	(648,031)	(81,316)	(973,774)	(1,703,121)
Carrying amount	24,838,198	4,133,926	1,596,333	30,568,457
Retail				
2020				
ECL Staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	161,031,220	22,719,706	-	183,750,926
Special monitoring	18,431	7,317,881	-	7,336,312
Default	-	-	15,286,071	15,286,071
Gross carrying amount	161,049,651	30,037,587	15,286,071	206,373,309
Loss allowance	(2,244,446)	(1,949,009)	(3,761,232)	(7,954,687)
Carrying amount	158,805,205	28,088,578	11,524,839	198,418,622
Retail				
2019				
ECL Staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	175,874,726	6,177,127	-	182,051,853
Special monitoring	137,617	5,173,817	-	5,311,434
Default	-	-	6,111,265	6,111,265
Gross carrying amount	176,012,343	11,350,944	6,111,265	193,474,552
Loss allowance	(2,246,059)	(822,229)	(1,152,253)	(4,220,541)
Carrying amount	173,766,284	10,528,715	4,959,012	189,254,011

The tables below present the gross amount of loans and advances that were Stage 2 accounts.

	2020			2019		
	Corporate and SME loans	Retail loans	Total	Corporate and SME loans	Retail loans	Total
Current	4,713,092	16,977,254	21,690,346	3,997,692	2,401,315	6,399,007
Past due up to 30 days	36,929	6,172,890	6,209,819	41,182	3,884,986	3,926,168
Past due 31 - 90 days	129,819	6,887,443	7,017,262	176,368	5,064,643	5,241,011
Past due 91 - 180 days	-	-	-	-	-	-
Over 180 days	-	-	-	-	-	-
	4,879,840	30,037,587	34,917,427	4,215,242	11,350,944	15,566,186

Treasury and other investment securities

Credit risk exposures relating to treasury and other investment securities at gross amounts are as follows:

	2020	2019
Due from BSP	17,846,031	23,538,280
Due from other banks	4,935,660	4,716,194
Interbank loans receivable and SPAR	3,631,258	2,967,396
Financial assets at FVTPL	-	2,012,907
Financial assets at FVOCI	6,732,952	2,866,308
Investment securities at amortized cost, net	24,233,039	20,049,310
	57,378,940	56,150,395

Credit quality of treasury and other investment securities

	2020			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Credit grade				
Standard monitoring				
Due from BSP	17,846,031	-	-	17,846,031
Due from other banks	4,935,660	-	-	4,935,660
Interbank loans receivable and SPAR	3,631,258	-	-	3,631,258
Financial assets at FVTPL	-	-	-	-
Financial assets at FVOCI	6,732,952	-	-	6,732,952
Investment securities at amortized cost	24,233,090	-	-	24,233,090
Gross carrying amount	57,378,991	-	-	57,378,991
Loss allowance	(51)	-	-	(51)
Carrying amount	57,378,940	-	-	57,378,940
	2019			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Credit grade				
Standard monitoring				
Due from BSP	23,538,280	-	-	23,538,280
Due from other banks	4,716,194	-	-	4,716,194
Interbank loans receivable and SPAR	2,967,396	-	-	2,967,396
Financial assets at FVTPL	2,012,907	-	-	2,012,907
Financial assets at FVOCI	2,866,308	-	-	2,866,308
Investment securities at amortized cost	20,049,313	-	-	20,049,313
Gross carrying amount	56,150,398	-	-	56,150,398
Loss allowance	(3)	-	-	(3)
Carrying amount	56,150,395	-	-	56,150,395

Other financial assets

Other financial assets that are exposed to credit risk as at December 31 are as follows:

	2020	2019
Other financial assets		
Accounts receivable, net	203,777	207,072
Rental deposits	72,055	67,630
Accrued interest and fees receivable	1,187	21,329
Miscellaneous assets, net	9,002	14,332
	286,021	310,363

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

To measure the ECL, other financial assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of receivables over a period of 36 months and corresponding historical credit losses experienced within the said period. The impact of forward-looking variables on macroeconomic factors is considered insignificant in calculating ECL provisions for other financial assets.

Off-balance sheet items

Credit risk exposures relating to off-balance sheet items are as follows:

	2020			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Credit grade				
Standard monitoring	5,501,170	126,389	-	5,627,559
Special monitoring	217,729	-	-	217,729
Default	-	-	3,393	3,393
Gross carrying amount	5,718,899	126,389	3,393	5,848,681
Loss allowance*	(22,266)	(9,658)	(408)	(32,332)
Carrying amount	5,696,633	116,731	2,985	5,816,349

*Included in Miscellaneous liabilities in Note 14

	2019			
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Credit grade				
Standard monitoring	6,397,933	233,463	-	6,631,396
Special monitoring	-	-	-	-
Default	-	-	3,339	3,339
Gross carrying amount	6,397,933	233,463	3,339	6,634,735
Loss allowance*	(18,101)	(12,756)	(512)	(31,369)
Carrying amount	6,379,832	220,707	2,827	6,603,366

*Included in Miscellaneous liabilities in Note 14

22.1.4 Credit impaired loans and advances

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

	2020		Carrying amount
	Gross exposure	Impairment allowance	
Credit-impaired assets			
Corporate and SME loans	3,592,147	(1,667,542)	1,924,605
Retail loans	15,286,071	(3,761,232)	11,524,839
Total credit-impaired assets	18,878,218	(5,428,774)	13,449,444
Fair value of collaterals	13,657,725		

	2019		
	Gross exposure	Impairment allowance	Carrying amount
Credit-impaired assets			
Corporate and SME loans	2,570,107	(973,774)	1,596,333
Retail loans	6,111,265	(1,152,253)	4,959,012
Total credit-impaired assets	8,681,372	(2,126,027)	6,555,345
Fair value of collateral	5,112,353		

The Bank acquires assets by taking possession of collaterals held as security for loans and advances. As at December 31, 2020, the Bank's foreclosed collaterals have carrying amount of P2.5 billion (2019 - P2.7 billion). The related foreclosed collaterals have aggregate fair value of P5.6 billion (2019 - P5.1 billion) and are classified under Level 2 of the fair value hierarchy. The Bank uses the market data approach in determining the fair value of foreclosed collaterals. Foreclosed collaterals include real estate (land, building, and improvements), auto and equity securities. Repossessed properties are sold as soon as practicable and are classified as "Assets held for sale" in the statement of condition.

22.1.5 Loss allowance

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

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

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

	Corporate and SMEs			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance, January 1, 2020	648,031	81,316	973,774	1,703,121
Provision for impairment for the year				
Transfers:				
Transfer from Stage 1	(199,591)	181,521	25,716	7,646
Transfer from Stage 2	1,846	(20,141)	-	(18,295)
Transfer from Stage 3	-	-	-	-
New financial assets originated	262,298	-	-	262,298
Financial assets derecognized during the period	(39,328)	(12,145)	(128,632)	(180,105)
Changes in assumptions and other movements in provision	(1,619)	(189)	358,869	357,061
	23,606	149,046	255,953	428,605
Write-offs and other movements	(421,474)	(8,138)	437,815	8,203
Loss allowance, December 31, 2020	250,163	222,224	1,667,542	2,139,929

Corporate and SMEs				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance, January 1, 2019	568,602	70,461	1,518,611	2,157,674
Provision for impairment for the year				
Transfers:				
Transfer from Stage 1	(203,575)	58,556	279,627	134,608
Transfer from Stage 2	3,019	(17,003)	35,629	21,645
Transfer from Stage 3	3,661	1,087	(87,978)	(83,230)
New financial assets originated	221,160	-	-	221,160
Financial assets derecognized during the period	(113,510)	(11,424)	(352,355)	(477,289)
Changes in assumptions and other movements in provision	153,323	(14,736)	26,210	164,797
	64,078	16,480	(98,867)	(18,309)
Write-offs and other movements	15,351	(5,625)	(445,970)	(436,244)
Loss allowance, December 31, 2019	648,031	81,316	973,774	1,703,121

Retail				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance, January 1, 2020	2,246,059	822,229	1,152,253	4,220,541
Provision for impairment for the year				
Transfers:				
Transfer from Stage 1	(409,700)	1,486,641	1,526,568	2,603,509
Transfer from Stage 2	20,651	(361,259)	633,891	293,283
Transfer from Stage 3	1,050	31,283	(67,517)	(35,184)
New financial assets originated	904,711	-	-	904,711
Financial assets derecognized during the period	(37,141)	(50,936)	(77,886)	(165,963)
Changes in assumptions and other movements in provision	749,451	(10,382)	79,882	818,951
	1,229,022	1,095,347	2,094,938	4,419,307
Write-offs and other movements	(1,230,635)	31,433	514,041	(685,161)
Loss allowance, December 31, 2020	2,244,446	1,949,009	3,761,232	7,954,687

Retail				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance, January 1, 2019	2,200,676	743,328	974,517	3,918,521
Provision for impairment for the year				
Transfers:				
Transfer from Stage 1	(269,520)	532,590	396,420	659,490
Transfer from Stage 2	22,015	(417,671)	188,363	(207,293)
Transfer from Stage 3	2,980	30,097	(145,236)	(112,159)
New financial assets originated	454,359	26	4	454,389
Financial assets derecognized during the period	(117,102)	(71,800)	(113,316)	(302,218)
Changes in assumptions and other movements in provision	(28,310)	(146,933)	(33,968)	(209,211)
	64,422	(73,691)	292,267	282,998
Write-offs and other movements	(19,039)	152,592	(114,531)	19,022
Loss allowance, December 31, 2019	2,246,059	822,229	1,152,253	4,220,541

Critical accounting estimate - Measurement of ECL for loans and advances

The measurement of the ECL for financial assets measured at amortized cost and FVOCI debt securities is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g., the likelihood of customers defaulting and the resulting losses).

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

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

Forward-looking scenarios

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

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

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

At December 31, 2020

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

At December 31, 2019

	Base scenario		Upside scenario		Downside scenario	
	Next 12 months	2 to 5 years (average)	Next 12 months	2 to 5 years (average)	Next 12 months	2 to 5 years (average)
Real GDP growth (%)	6.3	6.6	6.6	7.2	0	4.2
Inflation Rate (%)	3.0	3.1	2.7	2.4	11.0	5.9
PDST-R2 5Y (%)	4.5	4.7	4.0	4.3	11.2	10.3
US Treasury 5Y (%)	2.5	2.5	2.8	3.4	1.4	1.3
Exchange Rate	52.300	54.874	51.550	52.856	56.970	62.653

Sensitivity analysis

The loan portfolios have different sensitivities to movements in macroeconomic variables, so the above three scenarios have varying impact on the ECL of Bank's portfolios. The allowance for impairment is calculated as the weighted average of ECL under the baseline, upside and downside scenarios. The impact of weighting these multiple scenarios was an increase in the allowance for impairment by P3.53 million from the baseline scenario as at December 31, 2020 (2019 - P23.89 million).

Transfers between stages

Transfers from Stage 1 and Stage 2 are based on the assessment of SICR from initial recognition, as described in Note 25.3.1. The impact of moving from 12 months ECL to lifetime ECL, or vice versa, varies by product and is dependent on the expected remaining life at the date of the transfer. Stage transfers may result in significant fluctuations in ECL. Assuming all Stage 2 accounts are considered as Stage 1, allowance for impairment would have decreased by P688 million as at December 31, 2020 (2019 - P28 million).

22.1.6 Concentrations of risks of financial assets with credit risk exposure

The Bank's main credit exposure at their carrying amounts, as categorized by industry sectors follow:

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Allowance	Total
Due from BSP	17,846,031	-	-	-	-	-	17,846,031
Due from other banks	4,935,660	-	-	-	-	-	4,935,660
Interbank loans receivable and SPAR	3,631,258	-	-	-	-	-	3,631,258
Financial assets at FVTPL	-	-	-	-	-	-	-
Financial assets at FVOCI	6,732,952	-	-	-	-	-	6,732,952
Investment securities at amortized cost, net	24,233,090	-	-	-	-	(51)	24,233,039
Loans and advances, net	1,095,659	53,961,738	1,557,806	149,538,422	23,577,848	(10,094,616)	219,636,857
Other assets, net							
Accounts receivable, net	-	-	-	-	330,968	(127,191)	203,777
Rental deposits	-	-	-	-	72,055	-	72,055
Accrued interest and fees receivable	-	-	-	-	1,187	-	1,187
Miscellaneous assets, net	-	-	-	-	15,601	(6,599)	9,002
At December 31, 2020	58,474,650	53,961,738	1,557,806	149,538,422	23,997,659	(10,228,457)	277,301,818

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Allowance	Total
Due from BSP	23,538,280	-	-	-	-	-	23,538,280
Due from other banks	4,716,194	-	-	-	-	-	4,716,194
Interbank loans receivable and SPAR	2,967,396	-	-	-	-	-	2,967,396
Financial assets at FVTPL	2,012,907	-	-	-	-	-	2,012,907
Financial assets at FVOCI	2,866,308	-	-	-	-	-	2,866,308
Investment securities at amortized cost, net	20,049,313	-	-	-	-	(3)	20,049,310
Loans and advances, net	684,755	56,338,302	1,754,465	143,318,879	23,649,729	(5,923,662)	219,822,468
Other assets, net							
Accounts receivable, net	-	-	-	-	277,070	(69,998)	207,072
Rental deposits	-	-	-	-	67,630	-	67,630
Accrued interest and fees receivable	-	-	-	-	21,329	-	21,329
Miscellaneous assets, net	-	-	-	-	20,931	(6,599)	14,332
At December 31, 2019	56,835,153	56,338,302	1,754,465	143,318,879	24,036,689	(6,000,262)	276,283,226

Loans and advances under the "Others" category pertain to loans granted to individual and retail borrowers belonging to various industry sectors.

22.2 Market risk

The Bank is exposed to market risk - the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is managed by the RMO guided by policies and procedures approved by the RMC and confirmed by the Executive Committee/BOD.

22.2.1 Market risk management

Market risk management is incumbent on the BOD through the RMC. Market risk management in Bank covers managing exposures to trading risk, foreign exchange risk, counterparty credit risk, interest rate risk of the banking book and liquidity risk. At the management level, the Bank's market risk exposures are managed by the RMO, headed by the Parent Bank's CRO who reports directly to the RMC. In addition, the Internal Audit is responsible for the independent review of risk assessment measures and procedures and the control environment.

The Bank reviews and controls market risk exposures of both its trading and non-trading portfolios. Trading portfolios include those positions arising from the Bank's market-making transactions. Non-trading portfolios primarily arise from the interest rate management of the Bank's retail and commercial banking assets and liabilities.

Value-at-Risk (VaR) measurement is an integral part of the Bank's market risk control system. This metric estimates, at 99% confidence level, the maximum loss that a trading portfolio may incur over a trading day. This metric indicates as well that there is 1% statistical probability that the trading portfolios' actual loss would be greater than the computed VaR. In order to ensure model soundness, the VaR is periodically subject to model validation and back testing. VaR is supplemented by other risk metrics and measurements that would provide preliminary signals to Treasury and to the management to assess the vulnerability of the Bank's positions. To control the risk, the RMC sets risk limits for trading portfolios which are consistent with the Bank's goals, objectives, risk appetite, and strategies.

Stress tests indicate the potential losses that could arise in extreme conditions that would have detrimental effect to the Bank's positions. The Bank periodically performs stress testing (price risk and liquidity risk) to assess the Bank's condition on assumed stress scenarios. Contingency plans are frequently reviewed to ensure the Bank's preparedness in the event of real stress. Results of stress tests are reviewed by Senior Management and by the RMC.

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

	2020	2019
Foreign fixed-income	7,929	5,418
Foreign exchange	1,241	956

22.2.2 Foreign exchange risk

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

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

	2020	2019
Financial assets		
Cash and other cash items	172,798	202,131
Due from other banks	569,885	657,467
Financial assets at FVTPL	-	2,012,907
Financial assets at FVOCI - debt securities	3,259,194	1,246,364
Investment securities at amortized cost	9,862,537	9,273,480
Other assets, net		
Accounts receivable, net	1,850	30
Total financial assets	13,866,264	13,392,379
Financial liabilities		
Deposit liabilities	13,717,779	13,271,067
Manager's checks and demand drafts outstanding	3,226	2,197
Accrued interest and other payables	3,891	6,403
Other liabilities		
Miscellaneous liabilities	714	1,638
Total financial liabilities	13,725,610	13,281,305
Net on-balance sheet financial position	140,654	111,074

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

Year	Change in currency	Effect on pre-tax income (in thousands of Philippine Pesos)	Effect on equity (in thousands of Philippine Pesos)
2020	+/- 2.29%	+/- 3,221	+/- 2,255
2019	+/- 1.24%	+/- 1,377	+/- 964

22.2.3 Interest rate risk

Interest rate risk is the risk that the Bank will experience deterioration in its financial position brought about by movements in the absolute level of interest rates. Interest rate risk in the banking book arises from the Bank's core banking activities. The main source of this type of interest rate risk is re-pricing risk, which reflects the fact that the Bank's assets and liabilities have different maturities and are re-priced at different interest rates.

The Bank employs two methods to measure the potential impact of interest rate risk in the Bank's financial position - (i) one that focuses on the economic value of the banking book, and (ii) one that focuses on net interest earnings. The RMC sets limits on the two interest rate risk metrics which are monitored monthly by the Market Risk Division of the RMO.

Interest rate risk in the banking book

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

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

Earnings-at-Risk (EaR)

The EaR is built on repricing profile of the Bank and considers principal payments only. The Bank projects interest inflows from its financial assets and interest outflows from its financial liabilities in the next 12 months as earnings are affected when interest rate moved against the Bank's position. As at December 31, 2020, the net interest income impact of movement in interest rates amounts to P278.33 million (2019 - P522 million).

Balance Sheet Value-at-Risk (BSVaR)

The BS VaR model is also built on repricing gap or the difference between the amount of rate-sensitive financial assets and liabilities which considers both principal and interest payments. It is the present value of the Bank's expected net cash flows based on the current interest rates. As at December 31, 2020, the average BSVaR, computed on a monthly basis, for the banking book stood at P3,424 (2019 - P7,971).

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

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

The risk management process, including its various components, is subject to periodic independent review (i.e., internal audit and model validation) and consistently calibrated to ensure accuracy, relevance, propriety and timeliness of data and assumptions employed. The assumptions and parameters used in building these metrics are properly documented. Any changes in the methodology and assumptions used are duly approved by the Risk Management Head and noted by the RMC.

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

	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
As at December 31, 2020					
Financial assets					
Due from BSP	-	-	-	17,846,031	17,846,031
Due from other banks	-	-	-	4,935,660	4,935,660
Interbank loans receivable and SPAR	-	-	-	3,631,258	3,631,258
Investment securities					
Financial assets at FVTPL	-	-	-	-	-
Financial assets at FVOCI					
- debt securities	-	-	-	6,732,952	6,732,952
Investment securities at amortized cost, net	-	-	-	24,233,039	24,233,039
Loans and advances, net	55,977,887	56,622,919	46,660,758	60,355,293	219,616,857
Other assets, net					
Accounts receivable, net	-	-	-	203,777	203,777
Rental deposits	-	-	-	72,055	72,055
Accrued interest and fees receivable	-	-	-	1,187	1,187
Miscellaneous assets, net	-	-	-	9,002	9,002
Total financial assets	55,977,887	56,622,919	46,660,758	118,020,254	277,281,818
Financial liabilities					
Deposit liabilities	81,193,427	76,956,481	76,432,740	-	234,582,648
Other borrowed funds	-	-	-	9,544,988	9,544,988
Manager's checks and demand drafts outstanding	-	-	-	1,644,409	1,644,409
Accrued interest and other expenses	-	-	-	1,743,264	1,743,264
Other liabilities					
Accounts payable	-	-	-	1,250,976	1,250,976
Others	-	-	-	2,829,588	2,829,588
Total financial liabilities	81,193,427	76,956,481	76,432,740	17,013,225	251,595,873
Total interest gap	(25,215,540)	(20,333,562)	(29,771,982)	101,007,029	25,685,945

	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
As at December 31, 2019					
Financial assets					
Due from BSP	-	-	-	23,538,280	23,538,280
Due from other banks	-	-	-	4,716,194	4,716,194
Interbank loans receivable and SPAR	-	-	-	2,967,396	2,967,396
Investment securities					
Financial assets at FVTPL	-	-	-	2,012,907	2,012,907
Financial assets at FVOCI					
- debt securities	-	-	-	2,866,308	2,866,308
Investment securities at amortized cost, net	-	-	-	20,049,310	20,049,310
Loans and advances, net	63,316,964	44,397,935	51,301,708	60,805,861	219,822,468
Other assets, net					
Accounts receivable, net	-	-	-	207,072	207,072
Rental deposits	-	-	-	67,630	67,630
Accrued interest and fees receivable	-	-	-	21,329	21,329
Miscellaneous assets, net	-	-	-	14,332	14,332
Total financial assets	63,316,964	44,397,935	51,301,708	117,266,619	276,283,226
Financial liabilities					
Deposit liabilities	87,237,268	54,451,905	91,316,131	-	233,005,304
Other borrowed funds	-	-	-	9,509,728	9,509,728
Manager's checks and demand drafts outstanding	-	-	-	1,857,730	1,857,730
Accrued interest and other expenses	-	-	-	1,785,407	1,785,407
Other liabilities					
Accounts payable	-	-	-	1,108,097	1,108,097
Others	-	-	-	1,279,349	1,279,349
Total financial liabilities	87,237,268	54,451,905	91,316,131	15,540,311	248,545,615
Total interest gap	(23,920,304)	(10,053,970)	(40,014,423)	101,726,308	27,737,611

22.3 Liquidity risk

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

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

22.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by the RMC includes:

- day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or as borrowed by customers;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- monitoring liquidity gaps against internal and regulatory requirements;
- managing the concentration and profile of debt maturities; and
- performing periodic liquidity stress testing on the Bank's liquidity position by assuming a faster rate of withdrawals in its deposit base.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities (Note 22.3.2) and the expected collection date of the financial assets. Sources of liquidity are regularly reviewed by the Bank to maintain a wide diversification by currency, geography, counterparty, product and term.

The Bank also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit.

Liquidity Coverage Ratio (LCR)

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

The main drivers of the Bank's LCR comprise the changes in the total stock of HQLA as well as changes in net cash outflows related to deposits, unsecured borrowings and commitment facilities.

Net Stable Funding Ratio (NSFR)

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

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

The table below shows the actual liquidity metrics of the Bank:

	2020	2019
Liquidity coverage ratio	179.43%	160.16%
Net stable funding ratio	144.25%	142.14%
Leverage ratio	9.96%	10.90%
Total exposure measure	285,182,263	284,755,682

The improvement in the Bank's LCR in 2020 was attained due to the growing portfolio of government securities while cash, reserves and claims on the BSP make up on average 43.15% of the total stock of HQLA.

22.3.2 Maturity profile - Non-derivative financial instruments

The table below presents the maturity profile of non-derivative financial instruments based on undiscounted cash flows, including future interest, which the Bank uses to manage inherent risk. The analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date the financial asset will be realized or the financial liability will be settled.

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
As at December 31, 2020				
Financial assets				
Cash and other cash items	1,004,339	-	-	1,004,339
Due from BSP	17,846,031	-	-	17,846,031
Due from other banks	4,935,660	-	-	4,935,660
Interbank loans receivable and SPAR	3,631,258	-	-	3,631,258
Financial assets at FVTPL	-	-	-	-
Financial assets at FVOCI	215,434	293,953	6,900,588	7,409,975
Investment securities at amortized cost	13,140,038	4,276,358	9,649,033	27,065,429
Loans and advances	58,491,126	80,429,111	174,251,183	313,171,420
Other assets				
Accounts receivable	330,968	-	-	330,968
Rental deposits	72,055	-	-	72,055
Accrued interest and fees receivable	1,187	-	-	1,187
Miscellaneous assets	9,002	-	-	9,002
Total financial assets	99,677,098	84,999,422	190,800,804	375,477,324
Financial liabilities				
Deposit liabilities	84,943,639	76,615,635	82,289,135	243,848,409
Other borrowed funds	412,800	10,202,000	-	10,614,800
Manager's checks and demand drafts outstanding	1,644,409	-	-	1,644,409
Accrued interest and other expenses	1,734,264	-	-	1,734,264
Other liabilities				
Accounts payable	1,250,976	-	-	1,250,976
Others	225,191	396,818	491,968	1,113,977
Total financial liabilities	90,211,279	87,214,453	82,781,103	260,206,835
Total maturity gap	9,465,819	(2,215,031)	108,019,701	115,270,489

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
As at December 31, 2019				
Financial assets				
Cash and other cash items	1,034,938	-	-	1,034,938
Due from BSP	23,569,859	-	-	23,569,859
Due from other banks	4,716,194	-	-	4,716,194
Interbank loans receivable and SPAR	2,967,726	-	-	2,967,726
Financial assets at FVTPL	2,016,413	-	-	2,016,413
Financial assets at FVOCI	1,275,551	42,116	1,741,883	3,059,550
Investment securities at amortized cost	4,059,894	7,315,723	12,017,981	23,393,598
Loans and advances	129,863,841	36,538,848	154,702,027	321,104,716
Other assets				
Accounts receivable	207,072	-	-	207,072
Rental deposits	67,630	-	-	67,630
Accrued interest and fees receivable	21,329	-	-	21,329
Miscellaneous assets	14,332	-	-	14,332
Total financial assets	169,814,779	43,896,687	168,461,891	382,173,357
Financial liabilities				
Deposit liabilities	88,213,402	57,893,450	102,538,557	248,645,409
Other borrowed funds	412,800	10,234,107	-	10,646,907
Manager's checks and demand drafts outstanding	1,857,730	-	-	1,857,730
Accrued interest and other expenses	1,785,407	-	-	1,785,407
Other liabilities				
Accounts payable	1,108,097	-	-	1,108,097
Others	571,343	238,763	303,671	1,113,777
Total financial liabilities	93,948,779	68,366,320	102,842,228	265,157,327
Total maturity gap	75,866,000	(24,469,633)	65,619,663	117,016,030

22.3.3 Fair value of financial assets and liabilities

The table below summarizes the carrying amount and fair value of financial assets and liabilities at December 31:

2020	Carrying amount	Fair value		Total
		Level 1	Level 2	
Recurring measurements				
Financial assets				
Financial assets at FVOCI				
- Debt securities	6,732,952	3,473,758	3,259,194	6,732,952
- Equity securities	69,669	-	69,669	69,669
	6,802,621	3,473,758	3,328,863	6,802,621
Non-recurring measurements				
Assets held for sale, net	2,452,159	-	5,554,812	5,554,812

2020	Carrying amount	Fair value		Total
		Level 1	Level 2	
Financial assets				
Cash and other cash items	1,004,339	-	1,004,339	1,004,339
Due from BSP	17,846,031	-	17,846,031	17,846,031
Due from other banks	4,935,660	-	4,935,660	4,935,660
Interbank loans receivable and SPAR	3,631,258	-	3,631,258	3,631,258
Investment securities at amortized cost	24,233,039	14,511,651	10,472,445	24,984,096
Loans and advances, net	219,636,857	-	297,492,040	297,492,040
Other assets, net				
Accounts receivable, net	203,777	-	203,777	203,777
Rental deposits	72,055	-	72,055	72,055
Accrued interest and fees receivable	1,187	-	1,187	1,187
Miscellaneous assets, net	9,002	-	9,002	9,002
Financial liabilities				
Deposit liabilities	234,582,648	-	229,428,531	229,428,531
Other borrowed funds	9,544,988	-	9,544,988	9,544,988
Manager's checks and demand drafts outstanding	1,644,409	-	1,644,409	1,644,409
Accrued interest and other expenses	1,780,894	-	1,780,894	1,780,894
Other liabilities				
Accounts payable	1,250,976	-	1,250,976	1,250,976
Others	2,829,588	-	2,829,588	2,829,588

2019	Carrying Amount	Fair value		Total
		Level 1	Level 2	
Recurring measurements				
Financial assets				
Financial assets at FVTPL				
- Debt securities	2,012,907	2,012,907	-	2,012,907
Financial assets at FVOCI				
- Debt securities	2,866,308	1,611,814	1,254,494	2,866,308
- Equity securities	77,493	-	77,493	77,493
	4,956,708	3,624,721	1,331,987	4,956,708
Non-recurring measurements				
Assets held for sale, net	2,652,078	-	5,112,353	5,112,353

2019	Carrying amount	Fair value		
		Level 1	Level 2	Total
Financial assets				
Cash and other cash items	1,034,938	-	1,034,938	1,034,938
Due from BSP	23,538,280	-	23,538,280	23,538,280
Due from other banks	4,716,194	-	4,716,194	4,716,194
Interbank loans receivable and SPAR	2,967,396	-	2,967,396	2,967,396
Investment securities at amortized cost	20,049,310	10,476,134	9,853,689	20,329,823
Loans and advances, net	219,822,468	-	225,969,626	225,969,626
Other assets, net				
Accounts receivable, net	207,072	-	207,072	207,072
Rental deposits	67,630	-	67,630	67,630
Accrued interest and fees receivable	21,329	-	21,329	21,329
Miscellaneous assets, net	14,332	-	14,332	14,332
Financial liabilities				
Deposit liabilities	233,005,304	-	233,005,304	233,005,304
Other borrowed funds	9,509,728	-	9,509,728	9,509,728
Manager's checks and demand drafts outstanding	1,857,730	-	1,857,730	1,857,730
Accrued interest and other expenses	1,785,407	-	1,785,407	1,785,407
Other liabilities				
Accounts payable	1,108,097	-	1,108,097	1,108,097
Others	1,279,349	-	1,279,349	1,279,349

Critical accounting estimate - Fair value of other financial instruments

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

All models are approved by the Board of Directors before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The Bank considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of financial instruments that are not quoted in active markets.

Critical accounting estimate - Valuation of assets held for sale

In determining the fair value of assets held for sale, the Bank analyzed the sales prices by applying appropriate units of comparison, adjusted by differences between the subject asset or property and related market data. Should there be a subsequent write-down of the asset to fair value less cost to sell, such write-down is recognized as impairment loss in the statement of income.

In 2020, the Bank has recognized provision for impairment loss on its foreclosed assets amounting to P89 million (2019 - P45 million).

The Bank considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of assets held for sale.

Critical accounting judgment - Classification of assets held for sale

Management follows the principles in PFRS 5 in classifying certain foreclosed assets (consisting of real estate and auto or chattel) as assets held for sale when the carrying amount of the assets will be recovered principally through sale. Management is committed to a plan to sell these foreclosed assets and the assets are actively marketed for sale at a price that is reasonable in relation to their current fair value.

(i) *Cash and other cash items, due from BSP and other banks and interbank loans receivable and SPAR*

The fair value of floating rate placements and overnight deposits approximates their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. All of these financial assets have a maturity of one year, thus their fair values approximate their carrying amounts.

(ii) *Investment securities*

Fair value of financial assets at amortized cost is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(iii) *Loans and advances*

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted with the use of assumptions regarding appropriate credit spread for the loan, derived from other market instruments.

(iv) *Financial liabilities*

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The carrying values of interest-bearing deposit liabilities with repricing interest rates approximate their fair values. The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(v) *Other financial assets/liabilities*

Carrying amounts of other financial assets/liabilities which have no definite repayment dates are assumed to be their fair values.

22.4 Capital management

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

Cognizant of its exposure to risks, the Bank understands that it must maintain sufficient capital to absorb unexpected losses, to stay in business for the long haul, and to satisfy regulatory requirements. The Bank further understands that its performance, as well as the performance of its various units, should be measured in terms of returns generated vis-à-vis allocated capital and the amount of risk borne in the conduct of business.

Effective January 1, 2014, the BSP, through its Circular 781, requires each bank and its financial affiliated subsidiaries to adopt new capital requirements in accordance with the provisions of Basel III. The new guidelines are meant to strengthen the composition of the Bank's capital by increasing the level of core capital and regulatory capital. The Circular sets out minimum Common Equity Tier 1 (CET1) ratio and Tier 1 Capital ratios of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed. The minimum CAR remains at 10% which includes the capital conservation buffer.

The table below summarizes the CAR of the Bank under the Basel III framework for the years ended December 31, 2020 and 2019.

	2020	2019
Tier 1 capital	32,200,426	33,448,563
Tier 2 capital	1,578,188	1,517,847
Gross qualifying capital	33,778,614	34,966,410
Less: Regulatory adjustments/required deductions	3,794,097	2,405,600
Total qualifying capital	29,984,517	32,560,810
Risk weighted assets	185,044,808	177,806,371
CAR (%)	16.20	18.31
CET1 (%)	15.35	17.46

The Bank has fully complied with the CAR requirement of the BSP as at December 31, 2020 and 2019.

Note 23 - Commitments and Contingencies

At present, there are lawsuits and claims pending against the Bank. In the opinion of management, after reviewing all actions and proceedings and court decisions with legal counsels, the aggregate liability or loss, if any, arising therefrom will not have a material effect on the Bank's financial position or financial performance.

The Bank is a defendant in legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the financial statements.

In the normal course of business, the Bank makes various commitments that are not presented in the financial statements. The Bank does not anticipate any material losses from these commitments.

Note 24 - Subsequent events

BPI and BFB Merger

On January 22, 2021, BPI announced that its BOD had approved on January 21, 2021, subject to shareholders and regulatory approvals, the plan to merge with the Bank, its wholly owned thrift bank subsidiary, with BPI as the surviving entity. The integration of both entities will provide considerable advantages to the customers and employees of BPI and the Bank, and present potential synergies that will benefit shareholders. The accelerated shift to digital, the focus on operational efficiency and the expected reduction in the gap in regulatory reserve requirements between commercial banks and thrift banks were factors in the timing of the transaction.

The BOD of BPI, in its meeting held on February 24, 2021, approved the following significant terms and conditions of the planned merger transaction, subject to shareholders and regulatory approvals:

- The Bank shall be merged with BPI, with BPI as the surviving corporation;
- The merger shall become effective upon the latter of (a) BSP approval and SEC issuance of the Certificate of Merger, and (b) January 1, 2022;
- Prior to the effective date, BPI and the Bank shall conduct their respective business in a manner substantially the same as previously conducted;
- Any fees and costs related to the merger shall be borne by BPI; and
- The basis of determining the exchange ratio.

Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

The CREATE bill which seeks to lower corporate income tax rates and to rationalize fiscal incentives had been approved by the House of Representatives on September 13, 2019 and by the Senate on the third and final reading on November 26, 2020. The bill was approved by the Bicameral Conference Committee on February 4, 2021 but has yet to be signed into law by the President of the Philippines. Under the CREATE bill, effective July 1, 2020, the more significant changes are as follows:

- Reduction of corporate income tax (CIT) rate to 20% applicable to domestic corporations with total net taxable income not exceeding P5,000,000 and with total assets not exceeding P100 Million (excluding land on which the business entity's office, plant and equipment are situated);
- Reduction of CIT rate to 25% shall be applicable to all other corporations subject to regular CIT; and,
- Minimum Corporate Income Tax (MCIT) rate shall also be amended to 1%, instead of 2%, for the period beginning July 1, 2020 until June 30, 2023.

Since the CREATE bill has not been substantively enacted by the time the Bank's financial statements were authorized for release, no disclosures were made in the Bank's financial statements to reflect the potential impact of the proposed changes in CIT rate.

Financial Institutions Strategic Transfer (FIST) Law

On February 16, 2021, Republic Act (RA) No. 11523, otherwise known as FIST, was signed into law. The law takes effect immediately after its publication in the Official Gazette and a newspaper in general circulation. Under this law, financial institutions' strategic transfer corporations (FISTC) will have the powers to invest in or acquire the non-performing assets (NPAs) of financial institutions and engage third parties to manage, operate, collect and dispose of NPAs acquired from a financial institution. The transfer of NPAs to a FISTC will be exempt from documentary stamp tax, capital gains tax, creditable withholding taxes and value-added tax. The Bank is still in the process of evaluating how they can avail the benefit from the provisions of the FIST Law.

Note 25 - Summary of Significant Accounting Policies

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

25.1 Basis of preparation

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

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

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVTPL, financial assets at FVOCI, assets held for sale at the lower of cost and fair value less cost to sell and plan assets on pension plans measured at fair value.

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

Critical accounting estimates

- Useful lives of bank premises, furniture, fixtures and equipment (Note 9)
- Calculation of defined benefit obligation (Note 20)
- Measurement of ECL for loans and advances (PFRS 9) (Note 22.1.5)
- Fair value of other financial instruments (Note 22.3.3)
- Valuation of assets held for sale (Note 22.3.3)

Critical accounting judgments

- Classification of investment securities at amortized cost (Note 7)
- Realization of deferred income tax assets (Note 10)
- Determining the lease term (Note 17)
- Determining the incremental borrowing rate (Note 17)
- Classification of assets held for sale (Note 22.3.3)

25.2 Changes in accounting policy and disclosures

(a) New amendments to existing standards adopted by the Bank

The Bank has adopted the following amendments to existing standards and the revised Conceptual Framework effective January 1, 2020:

- Amendments to PAS 1, "*Presentation of Financial Statements*", and PAS 8, "*Accounting Policies, Changes in Accounting Estimates and Errors*"

The amendments clarify that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and; the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

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

- Amendments to PFRS 7, “*Financial Instruments: Disclosures*”, and PFRS 9, “*Financial Instruments*”

The amendments provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

In assessing the hedge effectiveness of the cash flow hedges directly affected by the interest rate benchmark reform, the Bank assumed that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

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

- Revised Conceptual Framework for Financial Reporting

The revised Framework includes the following changes:

- increasing the prominence of stewardship in the objective of financial reporting;
- reinstating prudence as a component of neutrality;
- defining a reporting entity, which may be a legal entity, or a portion of an entity;
- revising the definitions of an asset and a liability;
- removing the probability threshold for recognition and adding guidance on derecognition;
- adding guidance on different measurement basis; and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

The adoption of the revised Framework did not have a material impact on the financial statements of the Bank.

- Amendments to PFRS 16, “*Leases*”

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

The impact of the amendments to PFRS 16 in the financial statements of the Bank is summarized in Note 17.

(b) Amendments to existing standards not yet adopted by the Bank

The following amendments to existing standards are not mandatory for December 31, 2020 reporting period and have not been early adopted by the Bank:

- Interest Rate Benchmark Reform - Amendments to PFRS 9, “*Financial Instruments*”, PAS 39, “*Financial Instruments: Recognition and Measurement*”, PFRS 7 “*Financial Instruments: Disclosures*”, PFRS 4, “*Insurance Contracts*” and PFRS 16, “*Leases*”

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

The key reliefs provided by the amendments are as follows:

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

The Bank is currently in the process of assessing the impact of the amendments.

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

The amendments to PAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant).

- Amendments to PAS 16, “*Property, Plant and Equipment*”

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

- PAS 37, “*Provisions, Contingent Liabilities and Contingent Assets*”

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

- Annual Improvements to PFRS Standards 2018-2020

The following improvements were finalized in May 2020:

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

The adoption of the above amendments is not expected to have a material impact on the financial statements of the Bank. There are also no new standards effective after December 31, 2020 that are expected to be relevant or would have a material impact on the financial statements of the Bank.

25.3 Financial instruments

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

Measurement methods

Amortized cost and effective interest rate

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

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

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

Interest income

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

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

Initial recognition and measurement

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

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

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

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

25.3.1 Financial assets

Classification and subsequent measurement

The Bank classifies its financial assets in the following measurement categories: at FVTPL, at FVOCI and at amortized cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

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

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

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

- *Amortized cost*
Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any ECL allowance recognized and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. Amortized cost financial assets include cash and other cash items, due from BSP, due from other banks, interbank loans receivables and SPAR, loans and advances, and other financial receivables.

- *FVOCI*

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses on the instrument's amortized cost which are recognized in the statement of income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- *FVTPL*

Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of income within 'Foreign exchange profit and securities trading gain' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately.

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

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

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

Equity instruments

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

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

Impairment of amortized cost and FVOCI financial assets

The Bank assesses impairment as follows:

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

ECL

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

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

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

- A financial instrument that is not credit-impaired on initial recognition is classified in “Stage 1” and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to “Stage 2” but is not yet deemed to be credit-impaired. The Bank determines SICR based on prescribed benchmarks approved by the Board of Directors.
- If the financial instrument is credit-impaired, the financial instrument is then moved to “Stage 3”.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on ECL on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with PFRS 9 is that it should consider forward-looking information.
- POCI financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3). The Bank has no POCI financial assets as at December 31, 2020 and 2019.

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

Determination of SICR

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

- substantial deterioration in credit quality as measured by the applicable internal or external ratings, credit score or shift from investment grade category to non-investment grade category;
- adverse changes in business, financial and/or economic conditions of the borrower;
- early warning signs of worsening credit where the ability of the counterparty to honor his obligation is dependent upon favorable business or economic condition;
- the account has become past due beyond 30 days where an account is classified under special monitoring category (refer to Note 22.1.2 for the description of special monitoring); and
- expert judgment for the other quantitative and qualitative factors which may result in SICR as defined by the Bank.

Measuring ECL - Inputs, assumptions and estimation techniques

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

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

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

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

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

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

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

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

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

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

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

Forward-looking information incorporated in the ECL models

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

The estimation and application of forward-looking information requires significant judgment. As with any economic forecasts, the projections and likelihood of occurrences are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The scenarios and their attributes are reassessed at each reporting date. Information regarding the forward-looking economic variables and the relevant sensitivity analysis are disclosed in Note 22.1.5.

Financial assets with low credit risk

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

Definition of default and credit-impaired assets

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

(a) Quantitative criteria

The borrower is more than 90 days past due on its contractual payments (with the exception of credit cards loans where a borrower is required to be 90 days past due to be considered in default).

(b) Qualitative criteria

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

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

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

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

Modification of loans

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

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

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

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

Loan modifications in compliance with the Bayanihan Acts I and II are treated in line with Bank's policies discussed above.

Derecognition of financial assets other than modification

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

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

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

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

Derecognition of financial assets measured at amortized cost

The hold-to-collect business model of the Bank provides instances wherein sales of financial assets at amortized cost are not deemed to be inconsistent with the objective of collecting contractual cash flows. These include but are not limited to:

- Sales irrespective of frequency and value which include those:
 - due to increase in the securities' credit risks and
 - made close to maturity and the proceeds approximate the collection of the remaining contractual cash flows;
- Sales irrespective of frequency but of significant value which include those:
 - attributable to an isolated event that is beyond the Bank's control, is non-recurring and could not have been reasonably anticipated by the Bank. (e.g. stress case scenario) and
 - changes in tax law that eliminates or significantly reduces the tax exempt status of interest on the security under the amortized cost category; and
- Sales that are insignificant in value both individually and in aggregate, even if frequent.

Write-off of financial assets

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

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

Recoveries on charged-off assets

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

25.3.2 Financial liabilities

Classification

The Bank classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortized cost.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the statement of income and are reported as "Foreign exchange profit and securities trading gain". The Bank has no financial liabilities that are designated at fair value through profit or loss.

(b) Other liabilities measured at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost. Financial liabilities measured at amortized cost include deposits from customers and banks, other borrowed funds, amounts due to BSP and other banks, manager's checks and demand drafts outstanding and other financial liabilities under deferred credits and other liabilities.

Subsequent measurement and derecognition

Financial liabilities at fair value through profit or loss are subsequently carried at fair value. Other liabilities are subsequently measured at amortized cost using the effective interest rate method.

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

Loan commitments

Loan commitments are contracts in which the Bank is required to provide loans with pre-specified terms to customers. These contracts, which are not issued at below-market interest rate and are not settled net in cash or by delivering or issuing another financial instrument, are not recorded in the statement of condition. Loss allowance is calculated on these commitments as described in Note 22.1.3.

25.3.3 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

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

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, PSE, Philippine Dealing and Exchange Corp., etc.).
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter (OTC) derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg. Further, this level also includes the fair values for investment properties, which are based on observable market data.

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. The Bank has no assets or liabilities classified under Level 3 as at December 31, 2020 and 2019.

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

(a) Financial instruments

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes mainly from Bloomberg.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

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

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

The fair value of OTC derivatives is determined using valuation methods that are commonly accepted in the financial markets, such as present value techniques and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates, with the resulting value discounted back to present value.

Under PFRS 9, all investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities, if any, and irrevocable loan commitments correspond to their carrying amounts.

(b) Non-financial assets or liabilities

The Bank uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follow:

- Market approach - A valuation technique that uses observable inputs, such as prices, broker quotes and other relevant information generated by market transactions involving identical or comparable assets or group of assets.
- Income approach - A valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions.

The fair values of Bank's investment property (shown under Other assets) and foreclosed assets (shown as Assets held for sale) fall under level 2 of the fair value hierarchy, which are based on the selling prices of similar assets. The Bank has no non-financial assets or liabilities classified under Level 3 as at December 31, 2020 and 2019.

25.3.4 Interest income and expense

Interest income and expense are recognized in profit or loss for all interest-bearing financial instruments using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

25.3.5 Offsetting of financial instruments

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

As at December 31, 2020 and 2019, there are no financial assets and liabilities that have been offset.

25.4 Cash and cash equivalents

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

25.5 Repurchase and reverse repurchase agreements

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

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

25.6 Bank premises, furniture, fixtures and equipment

Land and buildings comprise mainly of Bank's branches and offices. All bank premises, furniture, fixtures and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of an asset which comprises its purchase price, import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Buildings	25-50 years
Furniture, fixtures and equipment	3-5 years

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. There are no Bank premises, furniture, fixtures and equipment that are fully impaired as at December 31, 2020 and 2019.

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

25.7 Intangible assets

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

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

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other assets to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognized as an expense when incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

25.8 Foreclosed assets

Assets foreclosed shown as Assets held for sale in the statement of condition are accounted for at the lower of cost and fair value less cost to sell similar to the principles of PFRS 5. The cost of assets foreclosed includes the carrying amount of the related loan. Impairment loss is recognized for any subsequent write-down of the asset to fair value less cost to sell. Foreclosed assets not classified as Assets held for sale are accounted for in any of the following classification using the measurement basis appropriate to the asset as follows:

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

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

25.9 Impairment of non-financial assets

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

25.10 Borrowings and borrowing costs

The Bank's borrowings consist mainly of bills payable and other borrowed funds. Borrowings are recognized initially at fair value, being the issue proceeds, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest rate method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred. The Bank has no qualifying asset as at December 31, 2020 and 2019.

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

25.11 Fees and commission income

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

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

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

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

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

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

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

25.12 Credit card income

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

The interchange fee represents the transaction price associated with the implied contract between the Bank and the merchant because it represents the amount of consideration to which the Bank expects to be entitled in exchange for transferring the promised service (i.e., purchase approval and payment remittance) to the merchant. The performance obligation associated with the implied contract between the Bank and the merchant is satisfied upon performance and simultaneous consumption by the customer of the underlying service (i.e. purchase approval and payment remittance). Therefore, the interchange fee is recognized as revenue each time the Bank approves a purchase and remits payment to the merchant.

25.13 Foreign currency translation

(a) Functional and presentation currency

Items in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Philippine Peso, which is the Bank's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated at exchange rates as at the date of initial recognition. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value is determined.

Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at FVOCI are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss recognized under Trading gain/loss on securities in the statement of income. Translation differences on non-monetary financial instruments, such as equities classified as financial assets at FVOCI, are included in Accumulated other comprehensive income (loss) in the capital funds.

(c) Income from foreign exchange trading

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

25.14 Accrued expenses and other liabilities

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

25.15 Provisions for legal or contractual obligations; Contingencies

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

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

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

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

25.16 Income taxes

(a) Current income tax

Income tax payable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense for the year except to the extent that current tax is related to items (for example, current tax on financial assets at FVOCI) that are charged or credited in other comprehensive income or directly to capital funds.

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

(b) Deferred income tax

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

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

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

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

25.17 Employee benefits

(a) Short-term benefits

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

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

(b) Defined benefit retirement plan

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

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

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

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

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

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

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

(c) Defined contribution retirement plan

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

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

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

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

(d) Share-based compensation

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

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

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

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

(e) Bonus plans

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

25.18 Capital funds

Share capital, comprising common shares, is classified as equity.

Share premium includes any premiums or consideration received in excess of par value on the issuance of share capital.

Incremental costs directly attributable to the issue of new shares or options are shown in capital funds as a deduction from the proceeds, net of tax.

Surplus represents the accumulated profits of the Bank less any dividends declared.

25.19 Dividends on common shares

Dividends on common shares are recognized as a liability in the Bank's financial statements in the period in which the dividends are approved by the BOD.

25.20 Leases

25.20.1 Bank is the lessee

The Bank recognizes leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

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

Measurement of lease liabilities

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

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

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

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

To determine the incremental borrowing rate, the Bank:

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

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

Measurement of right-of-use assets

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

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

Right-of-use assets are generally depreciated over the lease term on a straight-line basis.

Extension and termination options

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

Short-term leases and leases of low-value assets

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

There have been no significant changes in estimation techniques or significant assumptions made from the time of the adoption of PFRS 16 on January 1, 2019 to the reporting date.

Lease modification

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

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

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

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

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

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

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

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

25.20.2 Bank is the lessor

The Bank (as a lessor) continues to classify its leases as operating leases or finance leases.

Operating lease

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

Finance lease

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

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

The Bank has no finance lease as at December 31, 2020 and 2019.

25.21 Related party relationships and transactions

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

25.22 Comparatives

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

Note 26 - Supplemental information required under BSP Circular No. 1074

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

(i) Basic quantitative indicators of financial performance

The key financial performance indicators follow (in %):

	2020	2019
Return on average equity		
- Daily average ¹	7.02	11.80
- Simple average ²	7.02	11.95
Return on average assets		
- Daily average ³	0.81	1.46
- Simple average ⁴	0.83	1.45
Net interest margin		
- Daily average ⁵	3.92	3.60
- Simple average ⁶	3.96	3.56

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, 2020 and 2019.

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, 2020 and 2019.

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, 2020 and 2019.

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, 2020 and 2019.

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, 2020 and 2019.

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, 2020 and 2019.

(ii) Description of capital instrument issued

The Bank considers its common shares as capital instrument for purposes of calculating its capital adequacy ratio as at December 31, 2020 and 2019.

(iii) *Significant credit exposures*

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

	2020	2019
Real estate, renting and other business	65.09	63.49
Consumer	23.49	24.96
Wholesale and retail trading	3.79	3.30
Manufacturing	0.68	0.78
Financial institutions	0.48	0.30
Agriculture and forestry	0.09	0.14
Others	6.38	7.03
	100.00	100.00

(iv) *Breakdown of total loans*

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

	2020	2019
Secured loans		
Real estate mortgage	123,163,454	137,629,258
Chattel mortgage	51,811,293	54,922,626
Others	1,962,279	2,222,761
	176,937,026	194,774,645
Unsecured loans	50,376,099	28,563,726
	227,313,125	223,338,371

Other collaterals include hold-out deposits, government securities and bonds, and deposit substitutes.

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

	2020			2019		
	Performing	Non-performing	Total	Performing	Non-performing	Total
Corporate loans	14,820,386	4,071,192	18,891,578	24,309,766	8,779,559	33,089,325
Retail loans	160,466,244	16,685,844	177,152,088	175,241,390	3,394,915	178,636,305
	175,286,630	20,757,036	196,043,666	199,551,156	12,174,474	211,725,630
Allowance for probable losses	(2,478,149)	(3,872,795)	(6,350,944)	(2,888,820)	(7,687,810)	(10,576,630)
Net carrying amount	172,808,481	16,884,241	189,692,722	196,662,336	4,486,664	201,149,000

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

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

(v) *Information on related party loans*

Details of DOSRI loans are as follows:

	2020	2019
Outstanding DOSRI loans	1,406	2,091
% to total outstanding loans and advances	0.00	0.00
% to total outstanding DOSRI loans		
Unsecured DOSRI loans	0.00	0.00
Past due DOSRI loans	0.00	0.00
Non-performing DOSRI loans	0.00	0.00

The Bank is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans as at December 31, 2020 and 2019. The Bank has no other related party loans outstanding as at December 31, 2020 and 2019.

(vi) *Secured liabilities and assets pledged as security*

There are no loans and advances at December 31, 2020 and 2019 used as security for other borrowed funds. (Note 13).

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

Credit risk exposures relating to off-balance sheet items are as follows:

	2020	2019
Undrawn loan commitments	5,848,681	6,634,735
Loss allowance	(32,332)	(31,369)
Carrying amount	5,816,349	6,603,366

Undrawn loan commitments are commitments under which over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. These off-balance sheet items are within the scope of PFRS 9 where the Bank estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to the off-balance sheet items is recognized in Miscellaneous liabilities (Note 14).

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

Note 27 - Supplemental information required by the Bureau of Internal Revenue

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

(i) *Documentary stamp tax*

Documentary stamp taxes paid through the Electronic Documentary Stamp Tax for the year ended December 31, 2020 consist of:

	Amount
Deposit and loan documents	855,999
Mortgage documents	2,007
Others	5,876
	863,882

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2020 consist of:

	Paid	Accrued	Total
Final income taxes withheld on interest on deposits	342,792	56,752	399,544
Income taxes withheld on compensation	236,141	51,413	287,554
Creditable income taxes withheld (expanded)	126,026	20,754	146,780
Withholding tax on decedent's deposit account	1,840	215	2,055
Final income taxes withheld on income payment	628	4	632
	707,427	129,138	836,565

Accrued withholding tax is shown as part of Deferred credits and other liabilities.

(iii) All other local and national taxes

All other local and national taxes paid/accrued for the year ended December 31, 2020 consist of:

	Paid	Accrued	Total
Gross receipts tax	596,729	207,170	803,899
Fringe benefit tax	14,993	2,377	17,370
Municipal taxes/Mayor's permit	56,266	-	56,266
Real property tax	23,270	-	23,270
Others	1,260	-	1,260
	692,518	209,547	902,065

Accrued taxes are shown as part of Accrued taxes, interest and other expenses in the statement of condition.

(iv) Tax cases and examinations

As at December 31, 2020, the Bank has various claims for tax refund pending with the tax authorities. There are no outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR in 2020.