PHILTRUST BANK
107th ANNUAL REPORT

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MESSAGE TO STAKEHOLDERS
December 31, 2023

We are pleased to report on your Bank's performance for 2023, a year that brought both opportunities and challenges to the economy and to Philtrust Bank. The Philippines' Gross Domestic Product (GDP) grew at an exceptional 5.6 percent, outpacing neighboring ASEAN countries. Inflation that averaged 6%, remained a concern, but business optimism improved, fueled by strong domestic demand, increased government spending on infrastructure projects, steady recovery of the manufacturing sector, and rising global demand. General economic conditions and Bank initiatives have resulted in significant improvements in Philtrust Bank's resources, deposits and profitability.

The Bank continued in its time-tested policy of conservatism, guided by its commitment to protect depositor funds. At the same time, it took numerous initiatives, continuing to move aggressively in consumer lending while maintaining its focus on small and medium enterprises. The major digitalization program has begun to yield significant improvements and is being aggressively pursued.

Philtrust Bank fully understands the difficulties of its borrowers both large and small and carefully balanced the Interests of borrowers, depositors, shareholders, and other Bank stakeholders within the parameters of Bangko Sentral ng Pilipinas (BSP) regulations.

As in preceding years, the Bank observed Philippine Financial Reporting Standards (PFRS) and BSP regulations in reporting its financial performance.

On the basis of these developments, the Bank closed the year with resources of PhP176.44 billion, 4.18 percent higher than the end-2022 resources of PhP169.36 billion. Bank clients had entrusted PhP151.70 billion to the Bank in the form of deposits, while shareholder investment amounted to PhP23.17 billion in the form of Capital Stock, Surplus and Surplus Reserves, and Undivided Profits.

The Bank maintained an asset portfolio balanced between the private and public sectors. Accordingly, the Bank increased loans to clients of strong credit standing and investments in risk-free securities issued by the Republic of the Philippines and the BSP, and in high-grade securities of top Philippine corporations.

Net Loans and Receivables amounted to PhP28.87 billion, up from PhP22.46 billion in the previous year. Funds thus released were placed in Investments in Bonds/Securities that came to PhP127.48 billion as of December 31, 2023, up by PhP6.07 from PhP121.41 billion or 5.0 percent of the year before.

Gross Earnings for the year amounted to PhP9.38billion. Interest Expense on Deposit Liabilities came to PhP5.31 billion, resulting in Net Interest Income for the year of PhP3.97 billion. Deducting Operating Expenses, providing for tax liabilities and allowing for other income, Net Income After Tax aggregated PhP1.03 billion for the year compared with PhP0.75 billion for 2022, representing an increase of 38.1 percent.

Risk Management

Risks from market, liquidity and credit considerations are constantly monitored by Management and the Board of Directors. These are kept to a minimum with the establishment of prudent approval limits and careful day-to-day management to ensure compliance with established controls and procedures and attainment of target performance levels.

Bank policies and procedures are constantly reviewed and strengthened, involving legal, compliance, operations and transactions processing, cash accountability or management, accounting and financial, settlement, systems and technology matters, with the aim of reducingto a minimum all quantifiable risks.

Bank experience and the best practices of other institutions are routinely evaluated as bases for improving the Bank's risk management practices, including risk objectives, policies, controls and reports, and details of procedures.

In addition to the Head Office, Bank branches number 60, of which 36 are in bank-owned premises.

Capital Structure and Capital Adequacy

The Bank's Aggregate Qualifying Capital was PhP21.99 billion as of December 31, 2023 of which Tier 1 capital amounts to PhP21.46 billion and Tier 2 capital, to PhP0.53 billion. Assets were analyzed as to credit, operational and market risks, resulting in total Risk Weighted Assets of PhP50.79 billion. The Bank's Capital Adequacy Ratio (CAR) therefore came to 43.29%. Details are presented in a separate section of this Report with comparable data for year-end 2022 and 2021. Capital Adequacy Ratios were 41.72% for 2022 and 50.67% for 2021. Details of the Bank's Credit Risk weighted assets for 2023, 2022 and 2021 are separately presented.

For each major type of asset, information is provided on asset value, booked valuation reserves, and risk mitigants to determine the Net Risk Weighted Assets of PhP50.79 billion and Total Gross Credit Risk Weighted Assets of PhP41.74 billion. Taking into account Off-Balance Sheet Exposures and miscellaneous items, Net Credit Risk Weighted Assets as of December 31, 2023 came to PhP40.74 billion. The comparable Net Credit Risk figure for 2022 is PhP38.76 billion and for 2021, PhP40.73 billion.

Market Risk estimates, specifically those relating to foreign exchange exposure are in a separate section of this Report. Bank exposure in equivalent peso figures amounted to PhP4.80 billion and Total Capital Charge came to PhP0.48 billion as of end-2023. Total Market Risk Weighted Assets as of the end-2022 was PhP4.42 billion and Total Capital Charge was PhP0.44 billion. As of end-2021, Total Market Risk Weighted Assets was PhP2.29 billion and Total Capital Charge, PhP0.23 billion.

Average gross income consisting of net interest income and income from dividends, fees and commission, net profit/loss on foreign exchange and other sources for the previous three years (2020-2022) amounted to PhP2.78billion. Using a capital charge factor of 15%, capital requirement is computed at PhP0.52 billion. Capital requirements as of end-2022 and end-2021 were similarly determined, arriving at a three-year average of PhP0.50 billion and PhP0.54 billion, respectively. The Risk Weighted amount for 2023 is therefore PhP4.98 billion using a

Capital Charge Adjustment of 125% and a Minimum Capital Multiplier of ten. Details of the Operations Risk analysis are separately presented with comparable information for 2022 and 2021.

Corporate Governance

The Bank's Board of Directors consists of twelve (12) individuals who are respected members of the Philippine business community, and who possess the expertise and experience necessary for successfully formulating long-term strategy and for exercising oversight in decisions and operations including credit, trust, audit, risk management, loan review, and compensation.

The Bank's organization structure including Board and Management Committees are presented in the organization chart appended hereto as Annex "E". The composition of the various Board Committees is also herewith attached as Annex "F". Bank policy on the remuneration of Directors, Officers and Staff is described in Annex "G".

The Bank's Board of Directors and Management again wish to express appreciation to Stockholders, valued clients and friends for their continued support and confidence and to the Bank's Officers and Staff for their steadfast professionalism and commitment to the highest standards of banking service. It has been through the united effort of the Bank's Board, Officers and Staff that Philtrust Bank has grown from strength to strength in its 106 years of service.

JAIME C. LAYA
President

GEN. HERMOGENES C. ESPERON, JR. (Ret.)
Chairman

May 10, 2024

CORPORATE POLICY

Vision and Mission

Philtrust Bank motivated by its vision and mission aspires to exceed achievements in the past to maintain its status as a leading bank in asset stability, consistent profitable operation, reasonable return on investment, sufficient liquid position under any stress scenario and soundness of systems and internal controls. Bank's course of business is grounded on its belief that the business of banking is forever and a public trust and that as stewards of public funds, Philtrust Bank is not only accountable to its clientele but primarily to the Divine Providence, the source of all goodness.

The Bank's Brand

Philtrust Bank has been known for its conservatism, grounded on the principle that maintaining the safety of depositor funds is of the highest importance. Its corporate maxim of minimum risk to, and absolute protection of, public funds has attracted numerous loyal clients. Bank staff firmly believes that its multitude of dependable clients have valued Bank's personal service and healthy balance of liquid assets; high asset and loan portfolio quality; and a solid capital base. To its century of banking service to its growing clientele and other stakeholders, Bank Directors, Officers and Staff addresses its message, *"We value your Trust and Confidence."*

Business Model

The Bank offers traditional banking services including deposit products denominated in Philippine pesos and US dollars; a range of loan products designed to meet the needs of individuals, entrepreneurs and corporate entities; foreign currency transactions including foreign letters of credit and remittances; trust services including fund management, handling escrow arrangements, and guardianship services; and other allied banking services.

The Bank follows the traditional scheme of accepting deposits from customers and, together with capital invested by stockholders, investing them to loans and debt instruments. Profits are earned primarily through interest spread; trading activities; fees and commissions for supplementary services rendered; and sale of acquired assets. The Bank serves its clients through its 61 branches nationwide, including its Head Office.

BOARD OF DIRECTORS

Hermogenes C. Esperon, Jr., Chairman of the Board/Independent Director

General Hermogenes C. Esperon, Jr. (Retired), 71 years old is a graduate of the Philippine Military Academy (PMA) in 1974. He finished his Master in Business Administration and Master in Public Administration from the University of the Philippines and Philippine Christian University respectively. He occupied various sensitive positions in both military and civilian arm of the government, among them: Chief of Staff, Armed Forces of the Philippines (AFP); Chairman, National Intelligence Board; Secretary, Presidential Management Staff and National Security Adviser and Director General, National Security Council. He also became Chairman of the Board of various financial institutions within the AFP namely: AFP RSBS; AFPSLAI, AFPMBAI and AFPGIC.

Jaime C. Laya, Vice-Chairman

Dr. Jaime C. Laya is Filipino, 84 years old. He is a Certified Public Accountant and a Ph.D. in Financial Management. He is former Governor of the Central Bank of the Philippines (now Bangko Sentral ng Pilipinas) and Chairman of the Monetary Board from 1981 to 1984. He is currently an Independent Director of Philippine AXA Life Insurance Co., Inc.; GMA Network, Inc; GMA Holdings, Inc.; Ayala Land, Inc.; Manila Water Company, Inc.; and Charter Ping An Insurance Corporation. He is also a Trustee of the Cultural Center of the Philippines; Metropolitan Museum of Manila; Yuchengco Museum; St. Paul's University – Quezon City; Society for Cultural Enrichment, Inc.; and Ayala Foundation, Inc. Escuela Taller Foundation of the Philippines, Inc. He is likewise the Chairman of Don Norberto Ty Foundation, Inc. He is also a columnist of the Manila Bulletin.

Josue N. Bellosillo, Vice Chairman of the Board and Corporate Counsel

Justice Josue N. Bellosillo (Retired) is Filipino, 90 years old. He is a retired Senior Justice of the Supreme Court of the Philippines and is currently Dean of the Centro Escolar University – School of Law and Jurisprudence.

Emilio C. Yap III, Vice Chairman of the Board

Emilio C. Yap III is Filipino, 52 years old. He holds a Ph.D. in Journalism and in Business Administration (Honoris Causa). He is the Vice-Chairman and President of Manila

Bulletin Publishing Corporation; Chairman of Manila Prime Land Holdings, Inc.; and Vice-Chairman of Manila Hotel Corporation. He is a Director of Centro Escolar University; Cocusphil Development Corporation; Manila Prince Hotel Corporation; U.N. Properties Development Corporation; MH F&B Ideas Inc.; TMH Transport Limousine Services Inc.; and Orient Enterprises, Inc. He is also a Director and Vice President of U.S. Automotive Co., Inc.; Director, Assistant Treasurer, and Asst. Corporate Secretary of USAUTOCO, Inc.; Director and Vice President of Philtrust Realty Corporation; and Director, Vice President, and Treasurer of Seabreeze Enterprises, Inc.

Carlos A. Pinpin, Jr., President

Carlos A. Pinpin, Jr. is Filipino, 67 yrs. Old. He is formerly the head of Credit and Loans Group of Philtrust Bank. He is a Master's in Business Management graduate of the Asian Institute of Management and a longtime banker. Prior to his stint with Philtrust Bank he served in various management and executive positions at Bank of America and RCBC Savings Bank from 1981 to 2016

Hilario G. Davide, Jr., Director

Chief Justice Hilario G. Davide, Jr. (Retired) is Filipino, 88 years old. He served as Chief Justice of the Supreme Court of the Philippines (1998-2005) and Ambassador and Permanent Representative of the Philippines to the United Nations. He is an Independent Director and Vice-Chairman of Manila Bulletin Publishing Corporation; Independent Director of Megawide Construction Corporation; and Trustee of University of San Carlos, Cebu City. He is also the Chairman of Kompass Credit and Financing Corporation; Chief Justice Claudio Teehankee Memorial Foundation, Inc.; Knights of Columbus F. George J. Willmann, SJ Charities, Inc.; Knights of Columbus of the Philippines Foundation, Inc.; and the Heart of Francis Foundation, Inc. He is a member of the Knights of Rizal – Council of Elders.

Calixto V. Chikiamco, Independent Director

Mr. Calixto V. Chikiamco is Filipino, 73 years old. He finished Economics degree from DLSU in 1972 and a Masters in Professional Studies in Media Administration from Syracuse University New York. He is currently connected with different media related companies.

Maria Georgina P. De Venecia, Independent Director

Mrs. Maria Georgina De Venecia is Filipino, 74 years old. She finished her Banking and Finance and Economics Degree from Assumption College. A former member of the House or Representatives representing the 4^{th} district of Pangasinan. She is currently connected with Manila Bulletin as an Independent Director and Chairman of INA Foundation.

Beatrice Jane L. Ang, Independent Director

Dr. Beatrice L. Ang is Filipino, 42 years old. She finished her BSC major in Biology at UP-Diliman and Doctor of Medicine Degree at St. Lukes College of Medicine-William Quasha Memorial. She also earned her Master of Business Administration (MBA) in General Management at the Northwestern University and Hongkong University of Science and Technology. She is currently director of several companies, administrator in a medical foundation and commissioner in a relief organization. She is also the Honorary Consul of Ukraine.

Ernesto O. Chan, Director

Ernesto O. Chan is Filipino, 77 years old. He is the Chairman, Treasurer, and Senior Vice-President of Pioneer Insurance and Surety Corporation; Chairman of Pioneer Intercontinental Insurance Corporation; and Director of Pioneer Life, Inc.. He is also a Director and Treasurer of Bancasia Finance and Investment Corporation and Bancasia Capital Corporation.

Miriam C. Cu, Director and Senior Vice-President

Miriam C. Cu is Filipino, 64 years old. She is a Certified Public Accountant. She is a Director and Treasurer of Orient Enterprises, Inc.; Vice President of Brightworld International Trading, Inc.; Director and Corporate Secretary of Seabreeze Enterprises, Inc.; and Director of G.A. Cu Unjieng Realty, Inc.

Benjamin C. Yap, Director

Benjamin C. Yap is Filipino, 77 years old. He is the Chairman and President of Benjamin Favored Son, Inc.; Chairman of House of Refuge Foundation; and a Director of USAUTOCO, Inc., Manila Hotel Corporation, Centro Escolar University, Seabreeze Enterprises, Inc., Philtrust Realty Corp., U.S. Automotive Co., Inc. and Euro-Med Laboratories Phil., Inc.

Agnes B. Urbano, Assistant Corporate Secretary

Atty. Agnes B. Urbano is Filipino, 62 years old. She holds an Ll.B. degree and is a First Vice President of the Bank.

Renniel C. Mailom, Assistant Corporate Secretary

Atty. Renniel C. Mailon is Filipino, 49 years old. He holds a Juris Doctor degree and an Assistant Manager.

SENIOR OFFICERS

Name		Position	Department/Branch	Nationality
Treasury and Cash Operations				
Benito D. Chua		Vice-President	Money Market Dept.	Filipino
Age	67			
College Degree/Profession	BSBA			
Years as Dept. Head	25			
Years in the Bank	41			
Loans & Discounts and Credit Operations				
Atty. Nemesio M. Domingo		First-Vice-President	Credit Department	Filipino
Age	62			
College Degree/Profession	BS Criminology, LLB			
Years as Dept. Head	17			
Years in the Bank	33			
Josephine Y. Ang		Vice-President	Loans & Discounts Department	Filipino
Age	66			
College Degree/Profession	BSC-CPA			
Years as Dept. Head	25			
Years in the Bank	41			
Atty. Jane D. Laplana-Suarez		First Vice-President	Legal and Collection Department	Filipino
Age	50			
College Degree/Profession	AB-Pol Sc. LLB			
Years as Dept. Head	19			
Years in the Bank	23			
International and FCDU				
Corazon L. Ho		Sr. Vice-President	FCDU Department	Filipino
Age	73			
College Degree/Profession	BSBA - CPA			
Years as Dept. Head	14			
Years in the Bank	40			
Cesar M. Esponilla	72	Vice-President	International Department	Filipino
College Degree/Profession	BSC Accounting			
Years as Dept. Head	49			
Years in the Bank	49			

Deposits and CASA Operations

Emmanuel M. Sales		Sr. Asst. Vice-President	New Accounts Dept.	Filipino
Age	59			
College Degree/Profession	BSC-Accounting			
Years as Dept. Head	2			
Years in the Bank	35			

Comptroller/Finance Operations

Luisa A. Lucin		Sr. Vice-President	Accounting Department	Filipino
Age	67			
College Degree/Profession	BSC CPA			
Years as Dept. Head	18			
Years in the Bank	40			

Branches Human Resources Administrative Operations

Victoria C. Lu		Sr. Vice-President	Purchasing Department	Filipino
Age	73			
College Degree/Profession	BSBA-CPA			
Years as Dept. Head	12			
Years in the Bank	12			

Cherry M. Lim		Vice-President	Personnel Department	Filipino
Age	65			
College Degree/Profession	BS-Psychology			
Years as Dept. Head	34			
Years in the Bank	42			

B Gen. Ramiro G. Busalanan		Vice-President	Security Department	Filipino
Age	67			
College Degree/Profession	BS Criminology			
Years as Dept. Head	9			
Years in the Bank	9			

Corporate Planning

Benedicto F. Borlado		First Vice-Pres.	Corporate Planning Dept.	Filipino
Age	55			
College Degree/Profession	BSME			
Years as Dept. Head	2			
Years in the Bank	2			

Compliance, Internal Control & Risk Management

Amelita G. Cua		Vice-President	Internal Audit Dept.	Filipino
Age	60			
College Degree/Profession	BSBA/CPA/MBA			
Years as Dept. Head	24			
Years in the Bank	37			

Judy Rosario G. Cam		Vice-President	Compliance Department	Filipino
Age	69			
College Degree/Profession	BSA/MBA			
Years as Dept. Head	1			
Years in the Bank	1			

Michael M. Boado		Asst. Vice-Pres.	Risk Management	Filipino
Age	38			
College Degree/Profession	Banking & Finance MBA			
Years as Dept. Head	3			
Years in the Bank	3			

George P. Castro		Vice-President	Executive Information Systems	Filipino
Age	60			
College Degree/Profession	BSC-Accounting			
Years as Dept. Head	16			
Years in the Bank	37			

Other Officers

Ms. Virginia S. Choa-Shi		Exec. Vice-President	Grace Park Branch	Filipino
Age	68			
College Degree/Profession	BSC CPA			
Years as Branch Head	40			
Years in the Bank	41			

Ms. Hazel M. Navarro		Vice-President	Trust Department	Filipino
Age	48			
College Degree/Profession	BSC			
Years as Dept. Head	1			
Years in the Bank	1			

Mr. Chai Sen D. Uy		Sr. Vice-President	Cebu Branches	Filipino
Age	77			
College Degree/Profession	BSC			
Years as Branch Head	14			
Years in the Bank	14			

FINANCIAL HIGHLIGHTS
For the years 2023 and 2022

		Consolidated	
Minimum Required Data		Current Year	Previous Year
Profitability			
	Total Net Interest Income	3,142,406	2,821,020
	Total Non-Interest Income	924,690	767,135
	Total Non-Interest Expenses	2,602,526	2,312,245
	Pre-provision profit	3,142,406	2,821,020
	Allowance for credit losses	(831,398)	(157,393)
	Net Income	1,029,109	745,286
Selected Balance Sheet Data			
	Liquid Assets	141,312,453	140,838,514
	Gross Loans	30,298,441	25,924,707
	Total Assets	176,435,638	169,355,365
	Deposits	151,698,140	147,072,526
	Total Equity	23,173,223	21,468,453
Selected Ratios			
	Return on equity	4.75%	3.34%
	Return on assets	0.61%	0.44%
	CET 1 capital ratio	42.26%	41.23%
	Tier 1 capital ratio	42.26%	41.23%
	Capital Adequacy Ratio	43.29%	41.72%
Per common share data			
	Net income per share:		
	Basic	1.03	0.75
	Diluted		
	Book Value	23.17	21.47
Others			
	Cash Dividends declared	-	-
	Headcount	884	861
	Officers	427	428
	Staff	457	433

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Total assets for the year 2023 went up by PhP7.081 billion brought about by increase in deposits and other liabilities amounting to PhP5.377 billion, decline in the negative amount of other comprehensive income by PhP1.128 billion and increase in retained earnings.

Total high grade liquid assets of PhP141.312 billion comprised mostly of investment in government securities accounted for 80% of total resources. This makes the Bank one of the most liquid banks in the country and amplifies Bank's commitment to clients that sufficient liquid funds cover deposit liabilities.

Loan's receivables are generally business loans to corporates, SMEs, and individuals. Gross loans as of end of December 2023 of PhP27.962 billion is PHP3.415 billion higher than previous year. This is a remarkable performance compared with recent previous years Credit exposures were principally industries engaged in trading business, real estate activity, manufacturing, accommodation, food/services, construction and agriculture.

Total Equity of PhP23.173 billion at the end of 2023 is PhP1.705 billion or 7.94% higher than previous year's PhP21.468 billion. The improvement in total equity was made possible by decline in market value loss on investment securities.

Results of operation for the year 2023 is equally impressive, as net income of PhP1.029 billion is PhP0.284 billion or 38.12% over the previous year's net income of PhP0.745 billion. Noted from operating result is the improvement on interest income from investment securities registering an increase of PhP2.424 billion from previous year and increase in other income of PhP0.157 billion. These were however overshadowed by hefty increase of interest expense on deposits and higher operating expenses.

MAJOR BUSINESS SEGMENTS

	2023			
	Treasury Group	Commercial Loans	Consumer Loans	Total
Segment Revenue				
Interest income	6,764,658.00	1,642,838.00	43,094.00	8,450,590.00
Other income	337,804.00	586,886.00	0.00	924,690.00
Interest expense	-5,307,160.00	-1,011.00	-13.00	-5,308,184.00
Provision for credit and impairment losses	32,923.00	798,475.00	0.00	831,398.00
	1,828,225.00	3,027,188.00	43,081.00	4,898,494.00
Compensation and employee benefits	-964,081.00	-41,375.00	-6,695.00	-1,012,151.00
Occupancy and equipment-related expenses	-208,817.00			-208,817.00
Other operating expenses	-1,381,558.00			-1,381,558.00
Income tax expense	-1,266,859.00			-1,266,859.00
Segment Operating Profit (Loss)	-1,993,090.00	2,985,813.00	36,386.00	1,029,109.00
Segment Assets				
Cash and other cash items	1,087,157.00			1,087,157.00
Due from Bangko Sentral ng Pilipinas (BSP)	11,579,430.00			11,579,430.00
Due from other banks	1,169,066.00			1,169,066.00
Securities purchased under resale agreement	2,336,535.00			2,336,535.00
Investment securities	127,476,800.00			127,476,800.00
Loan and receivables		26,184,585.00	348,948.00	26,533,533.00
Others	4,033,689.00	2,220,428.00	0.00	6,254,117.00
Total Segment Assets	147,682,677.00	28,405,013.00	348,948.00	176,436,638.00

	2022			
	Treasury Group	Commercial Loans	Consumer Loans	Total
Segment Revenue				
Interest income	4,431,388.00	1,110,961.00	17,139.00	5,559,488.00
Other income	596,335.00	170,799.00	0.00	767,134.00
Interest expense	-2,737,960.00	-508.00	0.00	-2,738,468.00
Provision for credit and impairment losses	157,393.00	0.00	0.00	157,393.00
	2,447,156.00	1,281,252.00	17,139.00	3,745,547.00
Compensation and employee benefits	-881,308.00	-38,839.00	-5,460.00	-925,607.00
Occupancy and equipment-related expenses	-179,641.00			-179,641.00
Other operating expenses	-1,206,997.00			-1,206,997.00
Income tax expense	-688,017.00			-688,017.00
Segment Operating Profit (Loss)	-508,807.00	1,242,413.00	11,679.00	745,285.00
Segment Assets				
Cash and other cash items	1,035,708.00			1,035,708.00
Due from Bangko Sentral ng Pilipinas (BSP)	17,194,897.00			17,194,897.00
Due from other banks	1,196,557.00			1,196,557.00
Securities purchased under resale agreement	1,381,191.00			1,381,191.00
Investment securities	121,411,351.00			121,411,351.00
Loan and receivables		20,907,770.00	164,898.00	21,072,668.00
Others	4,055,780.00	2,005,435.00	0.00	6,061,215.00
Total Segment Assets	146,275,484.00	22,913,205.00	164,898.00	169,353,587.00

Capital Structure and Capital Adequacy
As of Dates Indicated
(In PhP 0.000 Millions)

	31-Dec-23	31-Dec-22	31-Dec-21
I. Qualifying Capital			
Tier 1 Capital	22,945	21,378	25,997
Tier 2 Capital	525	239	120
Gross Qualifying Capital	23,470	21,616	26,117
Less: Regulatory Adjustments / Deductions	1,483	1,522	971
Net Qualifying Capital	21,987	20,095	25,146
II. Risk Weighted Assets			
Credit Risk Weighted Assets			
Risk Weight	40,740	38,763	40,733
Capital Requirement (10%)	*4,074*	*3,876*	*4,073*
Market Risk Weighted Assets			
Risk Weight	4,802	4,420	2,295
Capital Requirement (10%)	*480*	*442*	*229*
Operations Risk Weighted Assets			
Risk Weight	5,248	4,981	5,391
Capital Requirement (10%)	*525*	*498*	*539*
Total Capital Requirement	*5,079*	*4,816*	*4,842*
Required Capital Charge	10%	10%	10%
Total Risk Weights	50,791	48,164	48,419
III. Total Capital Adequacy Ratio	43.29%	41.72%	50.67%
IV. COMMON EQUITY TIER 1 RATIO	42.26%	41.23%	50.41%
V. CAPITAL CONSERVATION BUFFER	36.26%	35.23%	44.41%
Breakdown of Tier 1 Capital			
Paid in Capital Stock	10,000.00	10,000.00	10,000.00
Retained Earnings	14,971.92	14,678.87	13,921.05
Undivided Profits	1,029.11	745.28	826.34
Other Comprehensive Income	(2,827.81)	(3,955.70)	1,315.58
Total	23,173.22	21,468.45	26,062.97
Breakdown of Tier 2			
General Loan Loss Provision	524.86	238.68	120.00

Tier 1 CAR averaged 44.63% for the last three (3) years and highest in 2021 at 51.94%. Capital Conservation Buffer is likewise averaging higher than industry standard at 38.63%. Other comprehensive income showed improvement from previous year registering lower negative mark to market value of debt instruments. Net qualifying capital show consistent compliance with the required minimum capital for the last three (3) years.

PHILIPPINE TRUST COMPANY (PHILTRUST BANK)				
Reconciliation Statement				
December 31,2023				
	Submitted Report	**Variance**	**Audited Report**	**Remarks**
ASSETS				
Cash and other cash items	1,086,637	520	**1,087,157**	Reclassify balance of other assets to proper accounts
Loans and receivables	24,965,369	665	**26,533,533**	Revert damaged chattel mortgage surrendered
Loans and receivables		(395,701)		Discount recognized at sale of PBCOM shares
Loans and receivables		2,528		Accrual of divididend income
Loans and receivables		300,893		Reversal of Allowance
Loans and receivables		1,659,779		Reclass balance to proper account
Bank premises, furniture and equipment	3,152,640	5,876	**3,304,478**	Recognition of leasehold and amortization
Bank premises, furniture and equipment		145,962		Recognized lease contracts terminated and renewed during the year
Real and other properties acquired	1,788,164	432,264	**2,220,428**	Recognition of ROPA valuation and allowances
Deferred tax assets	544,689	(172,245)	**372,193**	Reversal of recognized DTA on allowance for ECL-loans
Deferred tax assets		(251)		Recording rollforward of retirement liability based on AVR
Other assets	3,990,210	78,572	**357,016**	Recognition of prepayment for final taxes withheld on BSP Bills
Other assets		3,456		Reclassifcation of chattel mortgage and loss on value of chattel mortgage foreclosed
Other assets		(520)		Reclassify balance to proper accounts
Other assets		(1,659,779)		Reclassify balance to proper accounts
Other assets		(2,054,923)		Translation adjustment
LIABILITIES				
Accrued taxes, interest and other expense	360,391	16,381	**376,772**	Additional accrual of profit sharing
Deferred credits and other liabilities	874,959	392,861	**1,032,639**	Unearned interest income on BSP bills
Deferred credits and other liabilities		(743)		Retirement liability based on AVR
Deferred credits and other liabilities		161,263		Recognition and deregnition of renewed and terminated contracts
Deferred credits and other liabilities		(395,701)		Discount recongnized on sale of PBCOM
EQUITY				
Retained earnings	15,489,468	511,566	**16,001,034**	Recognition of ROPA valuation and other adjustments
Other equity reserves	(489,281)	(2,339,283)	**(2,827,811)**	Transalation adjustments
		753		Recognition of retirement liability based on AVR
INCOME				
Investment securities	6,621,303	(392,861)	**6,228,442**	To derecognized unearned interst income on BSP bills
Other income	824,578	106,473	**924,690**	To record gain on foreclosure for the year
Other income		2,529		Accruel of dividend income
Other income		703		To derecognize lease contracts terminated during the year
Other income		(9,593)		Ropa adjustments
EXPENSE				
Provision for credit losses	(530,505)	(300,893)	**(831,398)**	Reversal of allowance
Other Expenses	2,540,591	16,381	**2,602,524**	To recognize additional expense on adjusted profit sharing computation
Other Expenses		28,036		Additional amortization expense on rou
Other Expenses		(17,967)		Reversal of entry made on lease liability
Other Expenses		15,963		Additional depreciation expense on foreclosed properties
Other Expenses		19,380		To set up allowance for losses for ropa
Other Expenses		261		To record retirement liability based on AVR
Other Expenses		(180)		Reversal of entry made to recognize additional self insurance reserve
Other Expenses		59		Additional amortization expenses
Income tax expense	1,173,186	172,245	**1,266,859**	To reverse recognized DTA on allowance for ECL
Income tax expense		(78,572)		Reversal of prepayment for final taxes withheld on BSP bills

RISK EXPOSURES

Credit Risk
As of December 31, 2023
(In PhP 0.000 Millions)

Risk Weighted Assets	Total Assets	Booked Valuation Reserves	Net Book Value	Risk Mitigant [1]/	Net Risk Weighted Assets	Total Credit Risk
Cash and Due from Banks	13,835	-	13,835	-	13,835	373
Financial Assets at FVOCI	19,482	-	19,482	-	19,482	9,997
Debt Securities at Amortized Cost	108,009	14	107,995	-	107,995	8,831
Loans and Receivables	30,298	2,906	27,392	1,964	25,427	14,847
Sales Contract Receivable	34	-	34	-	34	34
ROPA	1,858	70	1,788	-	1,788	2,682
Other Assets	5,448	180	5,268	-	5,268	4,867
Total on Balance Sheet	178,964	3,171	175,794	1,964	173,829	41,631
Total Off Balance Sheet	1,171	-	1,171	-	1,171	7
Total Credit Risk	180,136	3,171	176,965	1,964	175,001	41,637
Less: Unbooked Valuation Reserves						897
Net Credit Risk						40,740

[1]/ Risk mitigants are all in the form of hold-out on deposits.

Credit Risk
As of December 31, 2022
(In PhP 0.000 Millions)

Risk Weighted Assets	Total Assets	Booked Valuation Reserves	Net Book Value	Risk Mitigant [1]/	Net Risk Weighted Assets	Total Credit Risk
Cash and Due from Banks	19,427	-	19,427	-	19,427	352
Available for Sale Securities	21,842	-	21,842	-	21,842	11,460
HTM Financial Assets	99,729	19	99,710	-	99,710	8,965
Loans and Receivables	25,965	3,903	22,062	1,847	20,215	12,180
Sales Contract Receivable	46	-	46	-	46	46
ROPA	1,711	30	1,681	-	1,681	2,521
Other Assets	4,252	127	4,125	-	4,125	4,125
Total on Balance Sheet	172,971	4,079	168,892	1,847	167,045	39,650
Total Off Balance Sheet	1,153	-	1,153	-	1,153	10
Total Credit Risk	174,124	4,079	170,045	1,847	168,198	39,660
Less: Unbooked Valuation Reserves						897
Net Credit Risk						38,763

[1]/ Risk mitigants are all in the form of hold-out on deposits.

Credit Risk
As of December 31, 2021
(In PhP 0.000 Millions)

Risk Weighted Assets	Total Assets	Booked Valuation Reserves	Net Book Value	Risk Mitigant [2]/	Net Risk Weighted Assets	Total Credit Risk
Cash and Due from Banks	45,100	-	45,100	-	45,100	559
Available for Sale Securities	26,020	-	26,020	-	26,020	13,418
HTM Financial Assets	60,348	79	60,269	-	60,269	8,321
Loans and Receivables	38,809	4,141	34,669	2,303	32,365	12,219
Sales Contract Receivable	22	-	22	-	22	22
ROPA	1,656	30	1,625	-	1,625	2,438
Other Assets	3,733	16	3,717	-	3,717	3,717
Total on Balance Sheet	175,688	4,266	171,422	2,303	169,119	40,695
Total Off Balance Sheet	1,138	-	1,138	-	1,138	38
Total Credit Risk	176,826	4,266	172,560	2,303	170,257	40,733
Less: Unbooked Valuation Reserves						-
Net Credit Risk						40,733

[1]/ Risk mitigants are all in the form of hold-out on deposits.

Market Risk
As of Dates Indicated
(in 0.000 Millions)

Nature of Item	Currency	12/31/2023 Net Long/ (Short) Position (USD)	12/31/2023 Peso Equivalent	12/31/2022 Net Long/ (Short) Position (USD)	12/31/2022 Peso Equivalent	12/31/2021 Net Long/ (Short) Position (USD)	12/31/2021 Peso Equivalent
U.S. Dollar	USD	85.374	4,727.141	78.358	4,368.831	44.278	2,258.112
Japanese Yen	JPY	0.047	2.617	0.012	0.646	0.000	0.013
Swiss Franc	CHF	0.001	0.067	0.001	0.045	0.000	0.006
Pound Sterling	GBP	0.483	26.752	0.210	11.681	0.054	2.767
Euro	EUR	0.281	15.572	0.408	22.725	0.203	10.357
Canadian Dollar	CAD	0.064	3.546	0.089	4.959	0.180	9.179
Australian Dollar	AUD	0.107	5.922	0.087	4.878	0.159	8.096
Singapore Dollar	SGD	0.302	16.715	0.057	3.204	0.096	4.874
Foreign currencies not separately specified above		0.066	3.674	0.061	3.376	0.030	1.505
Overall Net Position			4,802.006		4,420.345		2,294.909
Risk Weight			8%		8%		8%
Total Capital Charge For ForEx			384.160		353.628		183.593
Capital Charge Adjustment for ForEx [1]/			125%		125%		125%
Adjusted Capital Charge for ForEx Exposures			480.201		442.034		229.491
Minimum Capital Multiplier [2]/			10		10		10
Total Risk Weighted ForEx Exposures			**4,802.006**		**4,420.345**		**2,294.909**
Period-end USD-PHP Exchange Rate			*55.370*		*55.755*		*50.999*

[1/] Capital charge is multiplied by 125% to be consistent with BSP required minimum CAR of 10%, which is 25% higher than the Basel minimum of 8%.
[2/] Adjusted capital charge is multiplied by 10 (i.e. the reciprocal of the minimum capital ratio of 10%)

Operations Risk
As of Dates Indicated
(In PhP 0.000 Millions)

Gross Income - Basic Indicator Approach:

	31-Dec-23 Year 3	31-Dec-23 Year 2	31-Dec-23 Last year	31-Dec-22 Year 3	31-Dec-22 Year 2	31-Dec-22 Last year	31-Dec-21 Year 3	31-Dec-21 Year 2	31-Dec-21 Last year
Interest Income	5,371	4,450	5,648	6,761	5,371	4,450	6,255	6,761	5,371
Interest Expense	3,241	1,955	2,750	4,063	3,241	1,955	3,221	4,063	3,241
Net Interest Income	2,130	2,495	2,897	2,698	2,130	2,495	3,034	2,698	2,130
Dividend Income	28	15	15	29	28	15	24	29	28
Fees and Commissions	49	50	60	63	49	50	57	63	49
Net Profit/(Loss) on ForEx	22	47	163	28	22	47	118	28	22
Other Income	128	72	226	115	128	72	103	115	128
Non-interest Income	227	184	464	235	227	184	301	235	227
Total Gross Income	2,356	2,679	3,361	2,933	2,356	2,679	3,335	2,933	2,356
Capital Charge Factor	15%	15%	15%	15%	15%	15%	15%	15%	15%
Capital Requirement	353	402	504	440	353	402	500	440	353
Average			420			398			431
Capital Charge Adjustment [1]/			125%			125%			125%
Adjusted Capital Charge			525			498			539
Minimum Capital Multiplier [2]/			10			10			10
Total Risk Weighted Amount			5,248			4,981			5,391

Notes
[1/] Capital charge is multiplied by 125% to be consistent with BSP required minimum CAR of 10%, which is 25% higher than the Basel minimum of 8%.
[2/] Adjusted capital charge is multiplied by 10 (i.e. the reciprocal of the minimum capital ratio of 10%)

RISK MANAGEMENT FRAMEWORK

The Bank's Board of Directors, Management and Staff recognize that risk is inherent in the entirety of banking operations and, if not well managed, could result to financial loss, regulatory sanctions, and penalties that may damage the Bank's reputation. The Bank takes a comprehensive approach to risk management with a defined risk framework and risk limits more particularly in credit. The types of risk faced by the Bank are generally credit, market, liquidity, operational, compliance, strategic and reputational.

The risk management framework provides, through carefully designed policies, clear responsibilities and accountability, and a tight monitoring and feedback mechanism involving all risk takers including the Board of Directors and the relevant committees.

Risk Appetite

The Bank is known for its conservative policies and practices that took root when it was majority owned by the Archdiocese of Manila. The late Dr. Emilio T. Yap, who headed the group that succeeded the Archdiocese of Manila as controlling shareholders, reinforced the Bank's strategy of slow but sure growth, ensuring the safety of depositor funds, and a reasonable return on investment.

Consistent with this strategy, the Bank's relatively low risk appetite is expressed in its ample capital, high liquidity position and profit levels that yield a reasonable return on stockholder investment. Credit risk is evaluated along time-proven lines that involve a series of reviews up to the Board Committee level. The Bank has adopted a default probability model to predict future losses and anticipate provisioning and capital requirement that are consistent with current pertinent banking regulations.

Risk Governance Structure and Risk Management Process

The risk governance framework establishes defense structures including front line units, the risk management unit, internal audit and compliance. The front-line units determine primary risk indicators in accordance with Board authority on the nature and limits of acceptable risk. The organizational units responsible: risk management; internal audit; and compliance serve as monitoring arms and assist management and the Board's oversight functions.

The risk management process starts with the identification and definition of risk, classifying these into quantifiable and non-quantifiable. The former calls for quantifying to the extent possible under validated methodologies and in specified monetary units, market, liquidity and credit risks. Similarly, non-quantifiable risks are defined under the Bank's "control culture" and internal control system designed to monitor and update operational policies and procedures. The following describes the Bank's risk management structure:

i. **Executive Committee** – analyzes, evaluates and approves activity/product attributes in relation to market, liquidity, credit and operations risks; control and compliance; audit, legal and regulatory; and technology issues.

ii. **Board Risk Oversight Committee (BROC)** – responsible for the continuing review of corporate risk policies, limits and controls, and ensures that business units continuously monitor the adequacy and soundness of such policies.

iii. **Assets Liability Committee (ALCO)** – ensures that the Bank maintains adequate liquidity, funding and capital to meet business and regulatory requirements.

iv. **Credit and Loans Review Committee (CLRC)** – primarily responsible for credit risk management, establishes credit standards for credit analysis, credit risk measurements, internal credit risk rating, and adequacy of credit risk structure.

v. **Risk Management Group** – an independent business unit that identifies analyzes, and measures risk position taking and lending, as well as borrowing hazards.

vi. **Audit Committee** – responsible for monitoring risk management policies and procedures and for reviewing the adequacy of the Bank's risk management system in relation to known and anticipated risks.

AML Governance and ML/TF Risk Management Framework

The Bank fully adheres to the national policies on: (a) protecting and preserving the integrity and confidentiality of bank accounts, preventing the use of banks to launder the proceeds of unlawful activity; and (b) the protection of life, liberty, and property from acts of terrorism, condemning terrorism and those who support and finance it. The Bank is also committed to assist the authorities in identifying potential money laundering transactions.

It is, therefore, the declared Bank corporate policy to observe the Anti-Money Laundering Law, as amended, its implementing rules and regulations, as well as to the various circulars, circular letters, and other issuances issued by competent authorities against money laundering, terrorism financing, and other related offenses.

In line with the declaration of policy, the Bank observes the following principles to combat money laundering:

i. Conduct business in conformity with high ethical standards in order to protect its safety and soundness as well as the integrity of the national banking and financial system. It shall not discriminate against certain customer types, such as Politically Exposed Persons, or against certain religion, race or ethnic origin, or such other attributes or profile as the only basis to deny these persons to access to the Bank's services;

ii. Know sufficiently its customer at all times and ensure that the financially or socially disadvantaged are not denied access to financial services while at the same time prevent suspicious individuals or entities from opening or maintaining an account or transacting with the Bank by himself or otherwise;

iii. Adopt and effectively implement a sound AML and terrorist financing risk management system that identifies, assesses, monitors and controls risks associated with money laundering and terrorist financing;

iv. Comply fully with the UARR and existing laws aimed at combating money laundering and terrorist financing by making sure that officers and employees are aware of their respective responsibilities and carry them out in accordance with superior and principled culture of compliance; and

v. Fully cooperate with Anti-Money Laundering Council (AMLC) for the effective implementation and enforcement of the AMLA, as amended, and its RIRR.

CORPORATE GOVERNANCE

Overall Corporate Governance Structure and Practices

The Bank's corporate governance follows processes through which corporate objectives are set and pursued in the context of the legal and regulatory frameworks, market environment, accountability, transparency, and effective participation to form solid relationship among stakeholders. Governance mechanisms include monitoring the actions, policies, practices, and decisions of the Board of Directors through its Corporate Governance, Nomination and Remuneration Committee.

Selection Process for the Board and Senior Management

The selection process for membership in the Board of Directors and Senior Management starts with nominations submitted to the Board's Corporate Governance, Nomination and Remuneration Committee. Candidates for directorship are submitted to stockholders for their consideration. Other bank officers that require appointment by the Board of Directors are reviewed by the same Committee for consideration of the Board.

Board's Overall Responsibility

The Board of Directors is primarily responsible for the governance of the corporation. It is the Board's responsibility to foster the long-term success of the Bank, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders.

The Board also formulates the Bank's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the means to effectively monitor management's performance.

All Directors, whether executive, non-executive or independent, participate in the decision making and resolution process of the Bank. The Chairman of the Board ensures that all concerns are addressed to the satisfaction of the entire membership. He also maintains qualitative and timely lines of communication and information between the Board and Management. Independent Directors, on the other hand, are mandated to validate actions taken by the Board and that the same complies with relevant banking laws and regulations.

Chairman of the Board

The Chairman of the Board presides over the meeting of the Board of Directors where all approvals for credit applications and policies are evaluated and approved. The Chairman is responsible for leading the Board to focus on strategic matters, and setting governance standards. He plays a critical role in nurturing the effectiveness of the Board and individual Directors.

Directors' Orientation and Education Program

Annually bank directors and senior executives attend annual training on updates and new trends on best practices in the industry regarding Corporate Governance and Anti Money Laundering conducted by the Institute of Corporate Directors, foremost provider of training and seminars for corporate directors. Also in attendance are directors and executives of other publicly listed companies within the umbrella of Yap Group of companies. In 2021 the topics covered in the annual training of directors and senior executives included the following:

- Sustainability and ESG: The What, Why, and How For Corporate Boards
- Disruptive Strategy: Theories & Frameworks
- AMLA Compliance in the Age of the Digital World
- Operationalizing Shared Prosperity Towards our Dream Philippines
- Cybersecurity Governance: Challenges and Solutions
- The Branch Architecture: A Valuable Framework for Setting Strategy

Board Qualification and Composition

All members of the Board possess the required integrity/probity, physical/mental fitness; relevant education/financial literacy/training and competencies relevant to the job, such as knowledge and experience, skills, diligence, and independence of mind; and sufficiency of time to fully carry out responsibilities. During the year the Bank elected two (2) additional independent directors to replace an independent director who has served out his maximum nine (9) years tenure as required by pertinent regulation and the other due to resignation.

The Board consists of twelve (12) members, four (4) of whom are Independent Directors, as follows:

	Name of Director	Type of Directorship	Nominee	No. of Years Served	Number of Shares	% to Total Shares
1	Gen. Hermogenes C. Esperon, Jr. (Ret.)	ID	No	1	100	0
2	Dr. Jaime C. Laya	NED	No	33	33,325	0.0033
3	Sr. Justice Josue N. Bellosillo (Ret.)	NED	No	14	1,512	0.0002
4	Chief Justice Hilario G. Davide, Jr. (Ret.)	NED	No	10	1,000	0.0001
5	Dr. Emilio C. Yap III	NED	No	14	183,263	0.0183
6	Ernesto O. Chan	NED	No	34	17,566	0.0018

7	Carlos A. Pinpin, Jr.	ED	No	2	100	0
8	Miriam C. Cu	ED	No	14	548,881	0.0549
9	Benjamin C. Yap	NED	No	7	19,310	0.0010
10	Ma. Georgina P. De Venecia	*ID*	*No*	2	100	0
11	Calixto V. Chikiamco	ID	No	2	100	0
12	Dr. Beatrice Jane L. Ang	ID	No	1	100	0

Note: ED – Executive Director; NED – Non-Executive Director; ID – Independent Director.

***Indirect ownership through PCD Nominee*

Board-level Committees

Executive Committee

Dr. Jaime C. Laya	-	Chairman
Gen. Hermogenes C. Esperon, Jr. (Ret.)	-	Member
Sr. Justice Josue N. Bellosillo (Ret.)	-	Member
Dr. Emilio C. Yap III	-	Member
Ms. Miriam C. Cu	-	Member
Mr. Carlos A. Pinpin, Jr.	-	Member
Mr. Ernesto O. Chan	-	Member

The Executive Committee shall have all the authority to act on behalf of the Board of Directors on all matters when the Board is not in session.

Trust and Investment Committee

Chief Jus. Hilario G. Davide, Jr. (Ret.)	-	Chairman
Dr. Jaime C. Laya	-	Member
Mr. Calixto V. Chikiamco	-	Member (ID)
Mr. Carlos A. Pinpin, Jr.	-	Member President
Mr. Adriano A. Tacata	-	Member Trust Officer

ID – Independent Director

The Trust and Investment Committee is responsible for overseeing the fiduciary activities of the Bank, primarily ensuring that they are conducted in accordance with applicable laws, rules and regulations, and prudent practices.

Audit Committee

Dr. Beatrice Jane L. Ang	-	Chairman (ID)
Gen. Hermogenes C. Esperon, Jr. (Ret)	-	Member (ID)
Mr. Ernesto O. Chan	-	Member

ID – Independent Director

The Audit Committee assists the Board in fulfilling its oversight responsibilities over the Bank's financial reporting policies, practices and internal control, as well as the internal and external audit functions. It also monitors and evaluates the adequacy and effectiveness of the Bank's internal control system. It is responsible for recommending the appointment of the internal auditor and the independent external auditor who both reports directly to the Committee.

Board Risk Oversight Committee

Mr. Calixto V. Chikiamco	-	Chairman (ID)
Chief Jus. Hilario G. Davide, Jr. (Ret.)	-	Member
Dr. Beatrice L. Ang	-	Member (ID)

ID – Independent Director

The Board Risk Oversight Committee is responsible for the creation and oversight of the Bank's corporate risk policy. It is responsible for identifying and analyzing the risks faced by the Bank; setting and recommending to the Board a system of risk limits and controls; and ensuring that each business unit continuously monitors the adequacy and soundness of policies, assumptions, and practices.

Corporate Governance, Nomination and Remuneration Committee

Gen. Hermogenes C. Esperon, Jr. (Ret.)		Chairman (ID)
Mrs. Ma. Georgina P. De Venecia	-	Member (ID)
Dr. Beatrice Jane L. Ang	-	Member (ID)
Chief Jus. Hilario G. Davide, Jr. (Ret.)	-	Member
Mr. Pompeyo A. Claveria	-	Secretary

ID – Independent Director

The Committee reviews and evaluates nominees for membership in the Board of Directors and other positions requiring appointment by the Board; ensures the effectiveness and observance of corporate guidelines and principles; recommends to the Board the continuing education of directors assigned to different board committees, the succession planning and remuneration policy; and determines whether elected directors are adequately carrying out assigned duties and responsibilities.

Related Party Transactions Committee

Mrs. Ma. Georgina P. De Venecia	-	Chairman (ID)
Gen. Hermogenes C. Esperon, Jr. (Ret.)	-	Member (ID)
Mr. Calixto V. Chikiamco	-	Member (ID)
Chief Jus. Hilario G. Davide, Jr. (Ret.)	-	Member
Mr. Pompeyo A. Claveria	-	Compliance Officer

Ms. Amelita G. Cua - Internal Auditor

ID – Independent Director

The Committee is responsible for identifying related parties; monitoring RPT transactions and ensuring that appropriate processes are undertaken to mitigate any risk that may arise from such transaction/s; and ensuring compliance with regulatory requirements.

Directors' Attendance at Board and Committee Meetings

Name of Director	Board		Executive Committee		Audit Committee		Trust and Investment Committee		Board Risk Oversight Committee		Related Party Transaction Committee		Corporate Governance, Nomination & Remuneration Committee	
Directors	P	%	P	%	P	%	P	%	P	%	P	%	P	%
Gen. Hermogenes C. Esperon, Jr. (Ret.)	**13/13**	**100**	12/12	100	7/7	100					7/7	100	5/5	100
Dr. Jaime C. Laya	**13/13**	**100**	12/12	100			4/4	100						
Sr. J. Josue N. Bellosillo (Ret)	**11/13**	**85**	12/12	100										
Dr. Emilio C. Yap III	**13/13**	**100**	12/12	100										
Mr. Carlos A. Pinpin, Jr.	**13/13**	**100**	12/12	100			4/4	100						
C.J. Hilario G. Davide, Jr. (Ret)	**12/13**	**92**					4/4	100	3/4	75	6/7	86	4/5	80
Benjamin C. Yap	**13/13**	**100**												
Ernesto O. Chan	**13/13**	**100**	12/12	100	6/7	86								
Miriam C. Cu	**13/13**	**100**	12/12	100										
Mrs. Ma. Georgina P. De Venecia	**13/13**	**100**									7/7	100	5/5	100
Mr. Calixto V. Chikiamco	**13/13**	**100**					4/4	100	4/4	100	7/7	100		
Dr. Beatrice Jane L. Ang	**13/13**	**100**			6/7	86			4/4	100			5/5	100
Total number of meetings	**13**		**12**		**7**		**4**		**4**		**7**		**5**	

Self-Assessment Functions

The Bank considers self-assessment as a collective effort of the entire organization. All departments/branches/units, together with their respective personnel, shall ensure adherence to internal policies and procedures, as well as to regulatory requirements.

The internal audit function provides independent appraisal of all the activities of the Bank in order to add value and improve operational efficiency, risk management, and internal control systems. It is headed by the Internal Auditor and reports directly to the Audit

Committee. Through the Audit Committee, the Board assesses the adequacy and effectiveness of internal control as defined in the internal audit system.

The compliance function reviews and assesses the implementation of internal policies and procedures; conducts compliance risk assessment and compliance testing; educates staff on compliance matters; and monitors compliance risk exposures. The Board of Directors ensures that a compliance program is defined for the Bank, and that compliance issues are resolved expeditiously. Senior Management, on the other hand, ensures that bank personnel and affiliated parties adhere to the pre-defined compliance standards. The Compliance Officer is the lead operating officer on compliance, periodically reporting to the Board of Directors through the Board's Corporate Governance Committee on matters that affect the design and implementation of the compliance program, monitoring submission of reports to regulators and updates on Bank's compliance with respect to BSP examination findings.

Dividend Policy

As provided in the By-Laws, the Board of Directors may declare dividends only from the profits of the business of the Bank, and then only after retaining unimpaired the entire subscribed and paid-up capital stock, the reserve fund required by law, amount earmarked for the by-laws mandated profit sharing for all employees (Art. VII) and a sum sufficient to pay all expenses then incurred by the Bank, inclusive of taxes.

Potential Conflict of Interest

The Bank entered into an agreement with its external auditor/s to validate Bank's ECL model. The validation was carried out by another partner from the same firm that's undertaking financial audit of the Bank. Bank management sees no possible conflict of interest.

Corporate Social Responsibility

The Bank provides academic scholarships to deserving students in various colleges and universities in the Philippines, thereby giving them opportunity to finish undergraduate degrees. Successful scholar-graduates are eventually offered employment in the Bank. The Office of the President handles the selection process and maintenance of the scholarship program. Bank also selects from deserving bank employees to pursue postgraduate courses in the field of finance for free. During the height of the pandemic, the Bank offered its property across its head office as quarantine facilities for frontline medical /police personnel in the City of Manila and distributed bags of relief goods to affected families in pursuance of its corporate social responsibility.

Consumer Protection Practices and Risk Management System

The Board is responsible for approving and overseeing the implementation of the Bank's customer protection policies as well as the mechanism to ensure compliance with the said policies; developing and maintaining a sound Customer Protection Risk Management System that is integrated into the overall framework for the entire product and service life-cycle; delivering effective recourse to its customers; and providing adequate resources devoted to customer protection and assistance.
Accordingly, the Board has adopted policies and procedures on customer assistance, consumer protection, and risk management that are consistent with consumer protection laws, rules and regulations. These policies and procedures are embedded in the Bank's business operations.

Internal audit reviews the Bank's customer protection practices, adherence to internal policies and procedures, and compliance with existing laws, rules and regulations. It has established a Customer Protection Audit Program that provides for an assessment of the effectiveness of the adequacy and implementation of approved policies and standards formulated to meet customer protection objectives.

The compliance function proactively monitors and promotes the Bank's adherence to standards of customer protection. It has established a formal Customer Protection Compliance Program that is part of the over-all compliance system of the Bank, including compliance testing and monitoring.
Bank Management reviews and monitors identified risks inherent in all its products and services to ensure that consumers are protected against such risks. Bank systems ensure transparency in banking transactions with the public through informative materials and well-informed bank officers and staff. In accordance with relevant laws and regulations, personal information and transaction details are kept confidential except when required by the proper authorities.

The Bank has adopted a system of reporting violations and procedures on complaints handling to ensure timely corrective measures. There is a Customer Assistance Group (CAG), consisting of Department and Branch Heads, with the Head of the Branches Department as the group head, to handle customer inquiries, requests, and complaints.

Performance Assessment Program

Bank management through the Personnel Department in coordination with Branches Department, regularly carries out a performance assessment program for all employees assigned at the head office and branches based on set standards, including job knowledge, attendance/punctuality, office decorum, and character attributes identifying potential for career advancement. Board of Directors' performance are assessed by the Chairman of the Board.

Orientation and Education Program

An orientation program for new employees includes an introduction to company rules, code of conduct, human resources policies, employee benefits, and the basic AML rules and regulations and updates thereof. The Bank conducts training programs for existing staff on internal policies and procedures, specifically on areas requiring continuing education. In 2023 the Bank conducted seminar on Consumer Protection that included topics on Protection Standards, Assistance Policies and Procedures and Information Privacy Policies and Procedures. The annual seminar for the continuing education of bank officers and staff on Anti Money Laundering (AML) matters were also conducted and it included the following topics:

- Fundamentals of AMLCFT (Basic Regular Employees) - for H.O. Non-AML functions
- Fundamentals of AMLCFT (Advanced Reg Employees) - for H.O. with AML functions and Branch Units
- Suspicious Transaction Reporting
- Covered Transaction Reporting

Retirement and Succession Policy

The Bank has established policies on the retirement of officers and staff and implements policies and procedures to ensure smooth transition upon the retirement, resignation, or other events affecting the employment of officers and staff. It also has a defined contribution or pension plan under which the Bank pays fixed contributions to an independent Provident Fund in full satisfaction of its legal and constructive obligations. The assets of the plan are held separately from those of the Bank and are under the control of Provident Fund trustees.

The Bank has no fixed retirement age for members of the Board of Directors or term limits for each director except for independent directors where the BSP requires a maximum cumulative term of nine (9) years. Our policy has been to find suitable candidates to become directors from among those nominated by the stockholders and incumbent directors. Considered in the selection of candidates for directorship in the Bank includes, integrity, probity, mental/physical fitness, relevant education/training and competencies relevant to the job. The stockholders elect the best candidates as members of the board of directors during the stockholder's meeting. Bank personnel retire at age sixty-five (65) but can be rehired at the Board's discretion depending on performance and need. Bank directors are not included in the retirement policy as their tenure is renewed annually and their continuous fitness as directors is determined by the Board's Corporate Governance and Nominations Committee.

On succession policy, the Bank identifies personnel within each department/unit/branch who can take over the leadership position in case a permanent or temporary vacancy for the top position occurs. The identified second-in-command is trained in the areas of operational proficiency, communications skills, and decision-making ability. The succession plan makes available experienced and capable employees to assume greater responsibilities in the future. It also increases employee satisfaction knowing that the Bank is planning for the employees' future opportunities for career advancement.

Remuneration Policy

The Bank has an approved position classification and compensation plan that emphasizes merit and performance for all employees from the lowest to the highest-ranking employee including bank directors. The profit-sharing system is part of the Bank's remuneration policy. The Board of Directors receives per diems for attendance in each Board and Committee meetings including Bank's profit-sharing program as provided by the Bank's By-Laws.

Policies and Procedures on Related Party Transactions

The Bank's transactions with directors, officers, stockholders and their related interests, and with other related parties are considered arm's length and done in the best interest of the Bank. Such transactions are undertaken without any special preferences and only in the regular course of Bank business. Dealings are subject to the approval of the Board of Directors as well as to the confirmation by the stockholders as may be necessary. All transactions of the Bank with its related parties are in accordance with existing laws, rules and regulations.

Accordingly, the Bank Board of Directors has constituted the Related Party Transaction Committee tasked to assist the Board of Directors in ensuring Bank compliance with applicable laws, rules and regulations, as well as in the effective implementation of relevant Policies and Procedures.

The Related Party Committee of the Board pass upon/approve RPT transaction including credit accommodations before they are recommended to the Board of Directors for approval. The Bank adopts policies and procedures to identify related parties; monitors related party transactions; ensures appropriate process of approval, identification, measurement, and monitoring risks; and sees to compliance with disclosure requirements.

SUSTAINABLE FINANCE

Sustainable Finance Framework that was approved by the board precipitated the formation of a sustainability core team, which drew the action plans to implement sustainability objectives for the next three (3) years starting 2023 through 2025.

Sustainability strategic objectives and risk appetite

- Promulgate policies and business direction that upholds and supports the movement of the financial services towards the development and implementation of sustainable finance models, alongside environmental and social undertakings.
- Train employees on the concept of Sustainable Finance in its training programs to develop manpower capabilities and identify talents that would become sustainability leaders within the organization.
- Promote financial literacy among the under banked and unbanked in pursuit of financial inclusion.
- Implement basic climate friendly practices in the construction or renovation of banking offices, acquisition of furniture and equipment including IT related purchases.
- Credit exposure to industries that advocate eco-friendly products and services shall be promoted, with at least three percent of the total loan portfolio by 2030.

Initiatives 2023 onwards that complies with urgent actions to combat climate change

- Encouraged bank personnel to recycle or use the back portion of old letters/documents for drafting of reports and correspondences.
- Promoted paperless presentation during meetings and presentations.

- Gradually replaced old lighting system with LED (light emitting diode) technology, that is energy efficient.
- Enforced “lights off” during lunch break for backroom offices.
- Required all offices to set thermostat of air conditioners at 25 degrees centigrade and turn off aircon thirty (30) minutes before dismissal or 5PM.

2024 Initiatives

- Pursue automation of several business processes and digitalization of documents thereby eliminating excessive use of paper.
- Engage in community outreach initiatives and work, with nearby orphanages for feeding and education programs.
- Offer scholarships, advocate employee development through soft skills training such as values formation, leadership, interpersonal relations.
- Use of solar panels for electrification in future branch expansion and improvement.
- Garbage/waste segregation

PLANS FOR 2024

As we look to the future, we are still committed to pursuing our long-term goals of continuing to be a reliable bank with a solid reputation for asset stability, consistently profitable operations, a respectable return on investment, a sufficient liquid position under any stress scenario and sound internal and system controls.

Four important strategic priorities will drive us toward our vision and help us reach our goals in 2024:

- Pursue more focused business growth that will restructure the balance sheet toward enhancing profitability while keeping adequate liquidity by building a portfolio of higher-yielding assets (loans) and, diversifying the loan portfolio by growing high-yielding consumer loans. To achieve this, we plan to do the following:
    - Beef up both our corporate and consumer lending groups to scale up our enterprise and retail loan portfolios to bolster interest income streams;
    - Expand sources of non-interest income by accelerating consumer loan bookings, and, fast-tracking the roll0ut of digitalization initiatives;

- Continue building up core deposits by opening new branches in strategic locations to broaden market reach and enhancing the sales management process to boost sales productivity.

- Improve support infrastructure anchored on digitalization initiatives to enhance operational efficiency and flexibility, enhance competitiveness in the market, and support business growth as well as facilitate regulatory compliance by capitalizing on modern IT infrastructure and applications and popular social media platforms. This involves the following:

    - Accelerating the implementation of projects to upgrade/expand support infrastructure (people, system, processes) such as the onboarding of additional salespeople and support personnel in critical support units;

    - Fast-tracking the rollout of major IT projects such as the new core banking system, new accounting system, internet and mobile banking, and enhancement of the existing retail Internet banking to name a few key initiatives in this area, and

    - Ensuring the completion of organizational restructuring for some key departments.

- Sustain improvement of asset quality, risk management, and compliance to satisfy changing regulatory requirements and handle developing and new risks. We have several important initiatives planned in this regard.

    - Enhancing current frameworks for risk management and developing new ones that meet new regulatory requirements, industry best practices, and standards;
    - Put into place a new AMLA system that allows for regulatory compliance and guarantees a uniform customer experience throughout all channels and consumer touchpoints; and,
    - Promptly enhance operational efficiency and flexibility while maintaining regulatory compliance by utilizing industry best practices and established ways to improve corporate processes and procedures.

- Keep pursuing organizational development (OD) initiatives, such as succession planning, organizational restructuring and realignment, staff upskilling and training, and performance management system review and improvement, to improve organizational effectiveness.

MATERIAL RELATED PARTY TRANSACTION

Material Related Party Transactions

Philtrust Bank 350

Name of Bank Bank Code

December 31, 2023

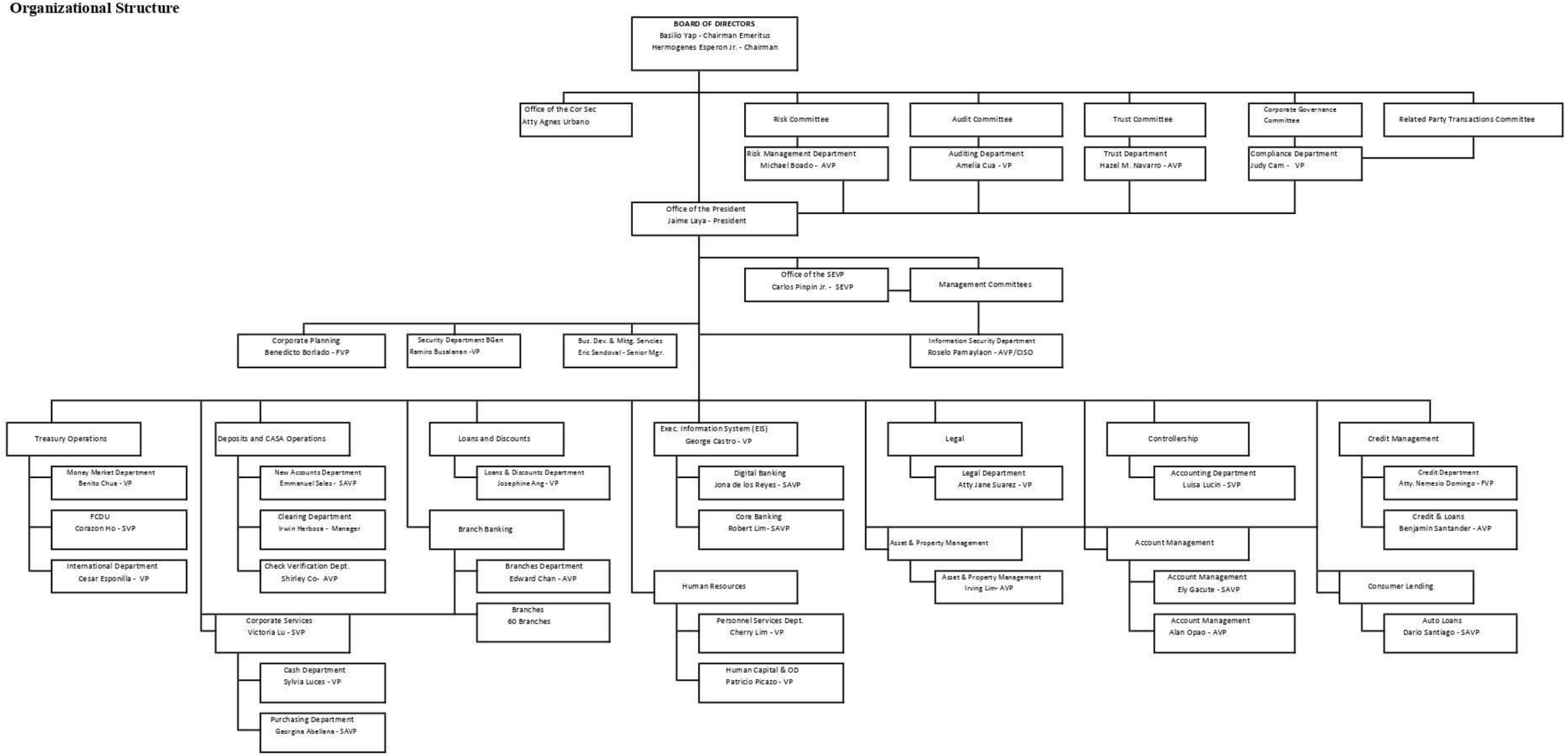
Date

Parent Bank/QB and Subsidiary/Affiliates	Related Counterparty	Relationship between the Parties	Transaction Date	Type of Transaction	Amount/Contract Price	Terms	Rationale for Entering into the transaction
A. Bank/QB							
a. Subsidiaries and Affiliates							
	Manila Hotel Corporation	Related Interest	31 Aug 2023	Credit Line	799,001,559.99	31 Aug 2024	For interest income
	Manila Hotel Corporation	Related Interest	31 Aug 2023	Credit Line	17,722,000.00	31 Aug 2024	For interest income
b. DOSRI							
	U.S. Automotive Co., Inc.	Stockholder	30 Sept 2023	Credit Line	854,000,000.00	30 Sept 2024	For interest income
	MH F&B Ideas, Inc.	Related Interest	30 Sept 2023	Credit Line	265,000,000.00	30 Sept 2024	For interest income
	Philtrust Realty Corporation	Stockholder	01 Jan 2023	Lease/Lessee	2,213,903.76	1 year	For branch use
	Philtrust Realty Corporation	Stockholder	01 Jan 2023	Lease/Lessee	5,718,324.96	1 year	For branch use
	Manila Bulletin Publishing Corp.	Related Interest	31 Dec 2023	Credit Line	1,000,000,000.00	31 Dec 2024	For interest income
	Cocusphil Development Corp.	Related Interest	01 Jan 2023	Lease/Lessee	2,251,360.68	1 year	For branch use
	Café France Corporation	Related Interest	01 Aug 2022	Lease/Lessor	17,432,959.05	10 years	For rental income
	U.N. Properties Development Corp.	Related Interest	31 Dec 2023	Credit Line	300,000,000.00	31 Dec 2024	For interest income
	U.N. Properties Development Corp.	Related Interest	08 Sept 2021	Lease/Lessee	27,855,000.00	5 years	For head office use
	U.N. Properties Development Corp.	Related Interest	01 Jul 2022	Lease/Lessee	19,561,680.00	5 years	For head office use
	Centro Escolar University	Related Interest	01 Jan 2005	Lease/Lessor	600,000,000.00	25 years	For rental income
	Centro Escolar University	Related Interest	01 Jun 2021	Lease/Lessee	4,937,415.12	5 years	For branch use
c. Others							
	Advance Solutions, Inc.	Related Party	24 Feb 2023	Credit Line	500,000,000.00	24 Feb 2024	For interest income
	Jen Food, Inc.	Related Party	04 Jun 2019	Credit Line	260,000,000.00	8 years	For interest income
	Prudhoe Investments, Inc.	Related Party	18 May 2021	Credit Line	67,246,540.00	31 Dec 2024	For interest income
	Rico Builders	Related Party	17 Jun 2020	Credit Line	278,921,282.84	26 Jul 2032	For interest income
	Rico Enterprises	Related Party	29 Jul 2022	Credit Line	138,282,450.00	29 Jul 2030	For interest income
	Briones, Adrian and Monet	Related Party	05 Jul 2023	Credit Line	10,000,000.00	05 Jul 2024	For interest income
	Go, Simona	Related Party	02 May 2022	Credit Line	220,000.00	2 years	For interest income
	Santillan, Jeanne	Related Party	11 Oct 2022	Credit Line	436,054.16	3 years	For interest income
	Navarro, Angela Gabrielle	Related Party	24 Jan 2023	Credit Line	4,000,000.00	7 years	For interest income
	Trivilegio, Alber and Dinah	Related Party	01 Jul 2022	Credit Line	534,545.61	3 years	For interest income
	Genghis Khan Security Services, Inc.	Related Party	31 Mar 2023	Credit Line	13,500,000.00	31 Mar 2024	For interest income
	Sprintlogic, Inc.	Related Party	31 Mar 2023	Credit Line	41,300,000.00	28 Feb 2024	For interest income
	Navarro, Racquel	Related Party	29 Dec 2023	Credit Line	1,100,000.00	3 years	For interest income
	Llaet, Johnna	Related Party	30 Nov 2023	Credit Line	1,072,450.44	3 years	For interest income

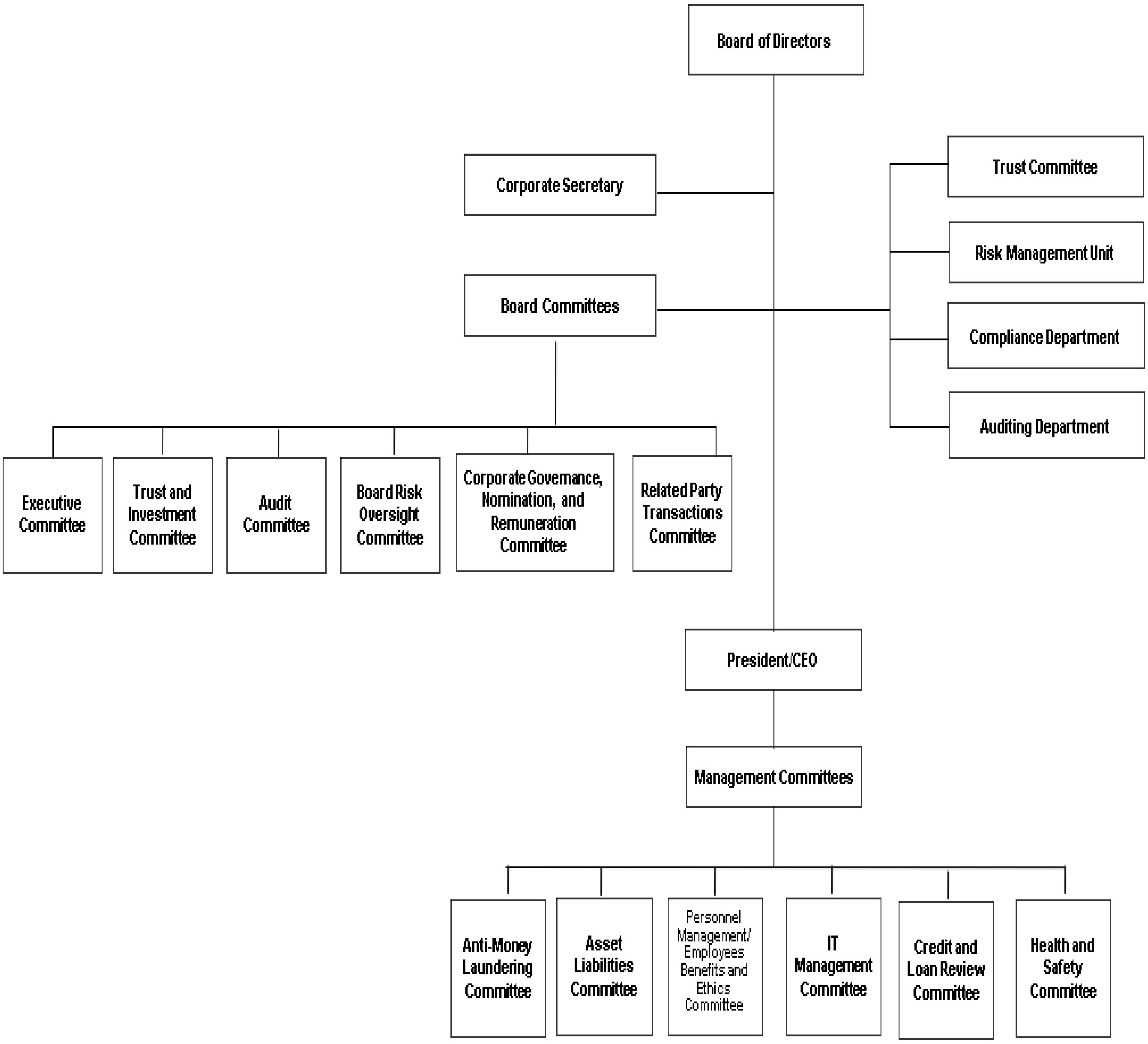
For Credit Line transactions, the amount reflected represents the outstanding balance as of 12/31/2023

CORPORATE INFORMATION

Organizational Structure



PHILTRUST BANK 2023 COMMITTEE ORGANIZATIONAL CHART



Directors and Senior Management

BOARD OF DIRECTORS

MR. BASILIO C. YAP
CHAIRMAN EMERITUS

GEN. HERMOGENES C. ESPERON, JR. (RET)
CHAIRMAN

DR. JAIME C. LAYA
PRESIDENT

SR. JUSTICE JOSUE N, BELLOSILLO
DR. EMILIO C. YAP III
MR. BENJAMIN C. YAP
MS. MIRIAM C. CU
MR. CARLOS A. PINPIN, JR.

CHIEF JUSTICE HILARIO G. DAVIDE, JR.
MRS. MA. GEORGINA P. DE VENECIA
MR. CALIXTO V. CHIKIAMCO
DR. BEATRICE JANE L. ANG
MR. ERNESTO O. CHAN

ATTY. AGNES B. URBANO
ATTY. RENNIEL C. MAILOM
ASSISTANT CORPORATE SECRETARY

OFFICERS

DR. JAIME C. LAYA
PRESIDENT

SR. JUSTICE JOSUE N. BELLOSILLO
CORPORATE COUNSEL

JUDY ROSARIO G. CAM
CHIEF COMPLIANCE OFFICER

MICHAEL M. BOADO
ACTG. CHIEF RISK OFFICER

MR. CARLOS A. PINPIN, JR.
SR. EXECUTIVE VICE PRSIDENT

VIRGINIA S. CHOA-SHI
EXECUTIVE VICE PRESIDENT

CORAZON L. HO
FCDU DEPARTMENT

LUISA A. LUCIN
CHIEF ACCOUNTING OFFICER

VICTORIA C. LU
PURCHASING DEPARTMENT

CHAI SEN D. UY
CEBU BRANCH

SENIOR VICE-PRESIDENTS

ATTY. JANE L. SUAREZ
ATTY. NEMESIO M. DOMINGO
BENEDICTO F. BORLADO
FIRST VICE-PRESIDENTS

HAZEL M. NAVARRO
ACTING TRUST OFFICER

BENITO D. CHUA
Money Market Department

JOSEPHINE Y. ANG
Loans and Discounts Department

CESAR M. ESPONILLA
International Department

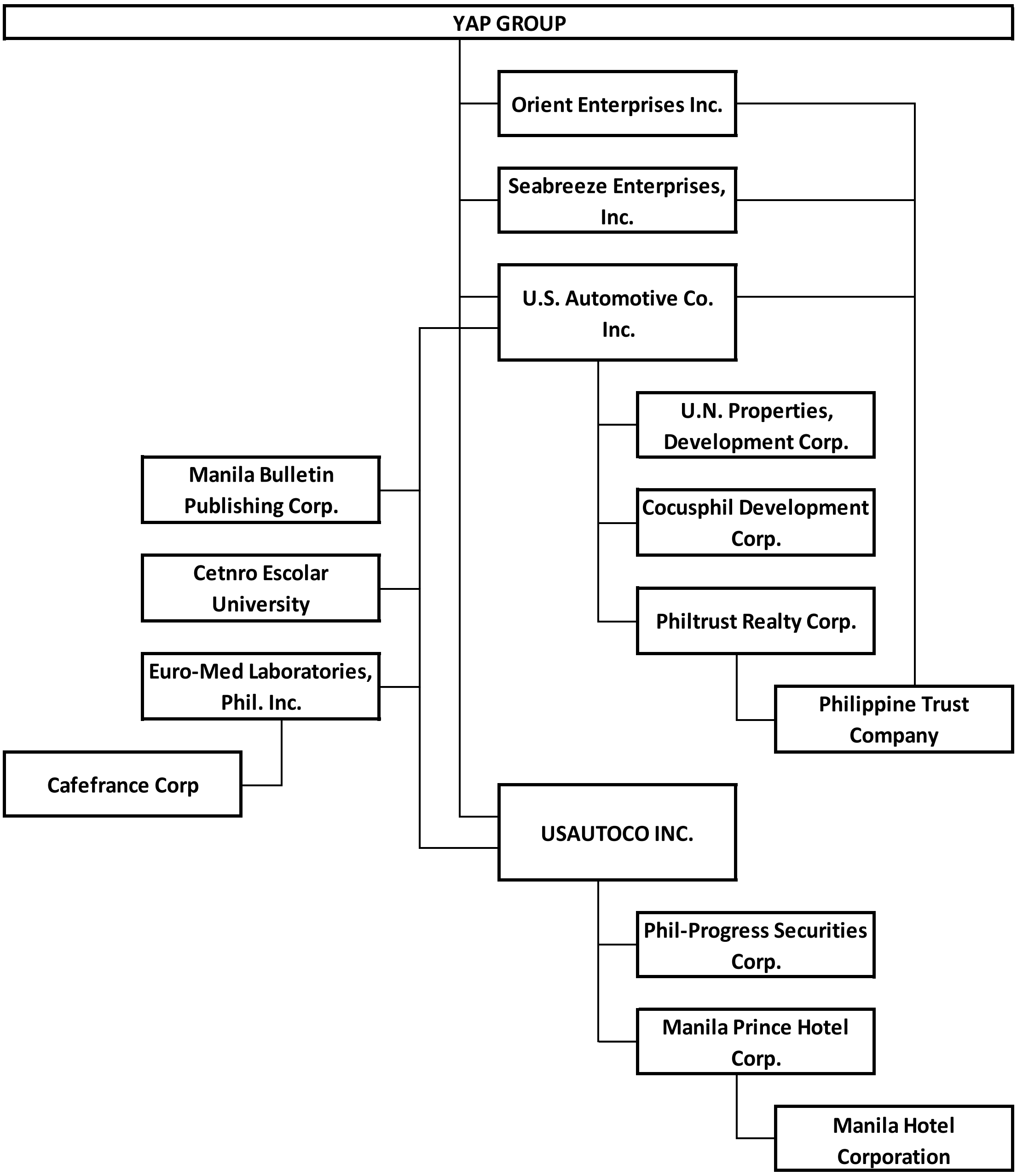
GEORGE P. CASTRO
E.I.S. Department

VICE PRESIDENTS

Major Stockholders

Name of Stockholder	Nationality	No. of Shares Subscribed and Paid Up	Amount	Percent
Philtrust Realty Corp.	Filipino	269,000,014	2,690,000,140	26.90
U.S. Automotive Co. Inc.	Filipino	209,873,774	2,098,737,740	20.99

CONGLOMERATE MAP
As of 31 December 2021



BANK PRODUCTS AND SERVICES

1. Checking Account

A type of demand deposit account withdrawable by check or where applicable, through an automated teller machine. It is also known as a current account. Non-interest bearing.

2. Savings Account

An interest-bearing deposit account withdrawable either upon presentation of a properly accomplished withdrawal slip together with the corresponding passbook or where applicable, through an automated teller machine. There are presently 4 savings account products that the Bank has, namely: Regular Savings Account, Gold Savings Account, Special Savings Passbook and Special Peso Savings Plan. They vary in terms of applicable interest rate, amount and limitations on the number of withdrawals over a specified period.)

3. Auto-transfer CA/SA Account

This is a combination checking and savings account which automatically allows for a transfer of deposit from a savings account to the checking account as checks are drawn on the latter. The principal benefit of this type of account is to allow the depositor to earn the prescribed interest on the savings account balance since no interest is paid if all funds are maintained in the current account.

4. Certificate of Time Deposit

Represents interest-bearing deposits with specific maturity dates. These are evidenced by certificates issued by the Bank. No time deposit with a term of less than thirty (30) days may be accepted.

5. Credit Extensions

a. Loans

A type of credit extension evidenced by a promissory note executed by a borrower payable on demand or on a specific maturity date. A loan may either be secured (e.g. against real estate mortgage, hold-outs on deposits) or unsecured/clean (i.e. no collateral). A loan with a maturity of one (1) year or less is referred to as a short-term loan while one with a maturity exceeding one (1) year is called a term loan or time loan. A time loan may be further categorized into a medium-term (1-3 years) or long-term loan (beyond 3 years) depending upon maturity.

b. Other Types of Credit Extensions

1) Commercial Letters of Credit

A letter of credit (L/C) is a form of bank guaranty issued in favor of a beneficiary/supplier for the importation/movement of goods and/or payment of services. A draft is drawn by the beneficiary in accordance with the terms and conditions stipulated in the letter of credit to enable him to receive payment. Depending on the type of L/C, drawings may be via *sight* or *usance* (term) drafts, the latter being a form of supplier's credit.

A letter of credit may be used for the 1) importation of goods from abroad in which case it is called an *import* L/C and is usually denominated in foreign currency, or 2) purchase of goods locally in which case it is called a *domestic* L/C and is usually denominated in Philippine Pesos.

2) Auto Loans/Car Financing

Allows individual customers to acquire a car with any arrangement other than a full-cash single lump payment (outright payment).

3) Trust Receipt

A type of financing provided by the bank representing bills/drafts drawn under letters of credit which have been accepted by the account party/importer/buyer prior to/upon release of the shipping documents under trust receipts agreements.

In a trust receipt agreement, the account party acknowledges that the Bank owns/has title (ownership) to the goods imported/purchased. Items imported/purchased must be intended for re-sale and/or form integral parts of goods for eventual sale (e.g. raw materials). Capital equipment and/or spare parts for own use are not eligible for T/R financing.

One interesting feature of a T/R is the fact that non-payment or failure to return the goods held under trust, may result in a borrower/signatories to the TR agreement, being held criminally liable (*estafa*).

6. Safe Deposit Box (SDB)

This is a facility offered by the bank, subject to the payment of prescribed rental, to established depositors for their safekeeping requirements. Dual control is exercised in the renting out of SDBs where one (1) set of keys is held by the depositor and the other by the Bank. Contents of the boxes are known only to the renter and are not insured against theft, fire etc. Currencies, if ever stored in these boxes, are not insured as well.

7. Manager's/Gift Check

A check issued and drawn by the Bank upon itself payable to the payee/s named in the check. A gift check is also a type of manager's check distinguishable only by the labeling as such and usually sealed in a red envelop. As the name implies, it is intended to be presented as a gift to the payee.

8. Telegraphic Transfer (domestic/foreign)

A form of remitting/transferring funds, incoming or outgoing, as the term denotes 'telegraphically' either locally or internationally.

TRUST SERVICES

Trust services of the Bank may be divided into three groups:

- Court Trust
- Private Trust
- Corporate Trust

1. **Court Trust**

Court Trusts are those trusts which emanate from the court. The trustee must submit intermediate accountings to the court. It is never relieved of its responsibility until a final accounting has been rendered and accepted and the final judgment or decree is made absolute. The court determines the property of the trustee's behavior and its obligation to adhere to the law and to administer the estate according to its best judgment. Because court trust must be administered in conformity with legal provisions, their administration procedures as required in the Rules of Court are discussed in Section III – Administrative Procedures. The Bank, when appointed by the court as trustee, will in most instances accept the office. It is duty bound to render to the public services that are set forth in its articles of incorporation. However, when the Bank cannot perform its duties efficiently for reasons beyond its control, it presents to the court its reasons for non-acceptance of the office.

2. **Executorship**

An executor is the individual or trust company appointed by the person who makes a will to administer his estate after his death. The executor gathers in the assets, ascertains what debts are owed, has the estate appraised, pays the taxes and debts that appear correct and that the probate court also approves, contests all improper claims, and then distributes the residue in accordance with the decree of the court. The duties of an executor for an estate of any size require a high degree of business ability, integrity, tact, and specified knowledge.

3. **Administration**

An Administrator is the individual or trust company appointed by the court to perform the same duties in connection with the estate of a person who dies without a will (INTESTATE) or where the will fails to designate an executor who is capable of acting.

4. **Special Administration**

When there is delay in the appointment of an executor or administrator due to an appeal from the allowance or disallowance of a will or from other causes, in order not to unnecessarily delay the administration or the estate of a decedent, the court may appoint a special administrator to collect and take charge of the estate of the deceased until the questions which caused the delay are decided and an executor or administrator is appointed.

5. **Guardianship**

Minors and incompetents cannot act for themselves in business matters. Therefore, every incompetent or minor who owns property should generally have a guardian of his estates and, usually, also have a guardian of his person. No Bank can act as a guardian of a person, but the Trust Department may be guardian of the estate of a minor or incompetent. A minor is one who is under twenty-one years of age. An incompetent is one who is incapacitated as taken up in the definition on Page 2, Section 1 of this Manual. The minor or incompetent is called the ward of the Trust Department.

6. **Testamentary Trusteeship**

Testament trustee is created by will of a deceased person, the will may stipulate that a portion or all of the estate be set aside in a trust to be administered for a period of time for the benefit of specific heirs. The court has jurisdiction over the decedent's estate until the testamentary trust has been created. Usually, further accountings are required from the testamentary trustee until the trust is finally terminated. If a will is ambiguous, the court may direct the inception of a testamentary trust, in which case, administration is subject to court orders until the trustee is relieved of responsibility and is discharged.

The advantages and good reasons for the testator in creating this trust are:

1. It provides management of the property, giving the benefits to the beneficiaries without imposing on them the burden of management.
2. It meets the special requirements of children and other dependents.
3. It avoids guardianship proceedings for minor beneficiaries.
4. It avoids duplication of administration costs.

7. **Receivership**

A receiver is one appointed by the court to take charge of the property, real or personal, which is the subject of litigation. The appointment of a receiver may also arise under the following cases:

1. When a corporation has been dissolved or insolvent, or is in imminent danger of insolvency or has forfeited its rights.
2. When property is found in danger of being lost.
3. When property is in danger of being wasted or materially injured.
4. After judgment to preserve the property during pendency of an appeal.
5. When the appointment of a receiver is the most convenient and feasible means of preserving, administering or disposing of the property in litigation.

Private Trust

Private Trust are those trusts which the court has no jurisdiction because they are created by a trustor to be operative during his lifetime through the provisions of the agreement may provide for continuance long after his death. Such trusts are also called “living” or “voluntary” or “personal” trusts. They are entered into with various objectives:

1. To reduce income or estates taxes.
2. To provide sustenance for beneficiaries.
3. To build an estate for dependents.
4. To accumulate funds for business ventures, or
5. To obtain the benefit of superior investment counsel.

In fact, their uses are endless. Purpose of creating such trusts is being originated practically everyday.

A private trust has the advantage of going into effect immediately upon the signing of the trust agreement. Upon the death of its creator, it continues on without the necessity of court appearance, this type of trust may be made revocable or irrevocable. Some of the more common private trusts are discussed subsequently.

8. **Custody Accounts**

This type of account embraces the physical custody of securities, the collection and crediting of interest and dividends with advice of credit, the preparation and filing of ownership certificates, advance notice of maturing principal, the prompt collection thereof, and preparation of periodic accounts. Securities are held separate and apart from those belonging to other accounts and are accorded the same protection as the Bank’s own property. All income is immediately credited to the customer’s commercial, savings, or other account, depending upon the instructions furnished. The custodian has no responsibility or powers to deal with such properties other than as are expressed in the agreement.

9. **Agency Accounts or Power of Attorney**

Under an agency account (in addition to the services described in the foregoing for a custody account) a customer may delegate to the Trust Department almost every kind of transaction, buying or selling, collection of accounts, negotiable papers, administration of estates for collection of income, receiving and remittance of dividends, etc. Authority to act is derived from a simple document duly notarized authorizing the trustee to perform certain definite acts and which can be revoked anytime. When the trust service includes the investment of personal property such as stocks and bonds, arrangements may be made to have the stocks and bonds held in agency accounts reviewed and to have written opinions and recommendations furnished the customer from time to time. The customer may keep his funds on the Trust Department books in an agency account.

10. **Trustee Under a Life Insurance**

Ordinarily, life insurance proceeds are paid to the beneficiary in lump sum, or under an inflexible optional installment plan. Many people, however, prefer to have the proceeds collected by a Trust Department, invested, the income paid out, and the principal thereafter distributed under the terms of their own particular trust. Such an arrangement is created during their lifetime by an appropriate agreement and is called an insurance trust. It may be changed at anytime prior to death. It allows a far more flexible use of insurance proceeds than is afforded by the insurance companies' plans. Very few people who carefully consider the idea fail to make use of it in connection, with all, or at least a part, of their insurance estate. The insurance proceeds after collection by the trustee are appropriately invested in high grade bonds or stocks, or in any other manner specified in the trust agreement.

11. **Escrows**

Escrows are agreements between two or more parties wherein the trustee act as an agent of both. It may happen that neither party trusts the other, and that therefore, neither wishes to perform before being satisfied with the other's performance. Under the circumstances the property is delivered upon fulfillment of the required condition. The trustee has no interest in the transaction other than to carry out the instruction of his principals. Instructions must invariably be written and sufficiently specific to allow no room for misunderstanding.

Funds or securities deposited in escrow are recorded as trust assets with corresponding offsetting liability account for their aggregate carrying value Escrow, like all private trust or agency agreements, is confidential interested unless authorized by the principals or unless demanded under process of law. (See Form No. 5)

Corporate Trust

A corporate trust is one under the terms of which the trustee performs various duties for a corporation. A corporate trust may be a court trust or private trust. The services rendered may be varied, such as handling an issue of new bonds or stock, paying interest or dividends, redeeming bonds, or acting as registrar or transfer agent of a stock issue. If the corporation which the corporate trustee is serving is in financial difficulties, the trustee may hold title to its property and manage or liquidate it for the benefit of its stockholders or creditors. Corporate trust fees are usually on a transaction basis, so much for each registration, stock transfer, coupon or bond payment, etc. Schedules of these charges should invariably be included in the trust agreement. Charges for such services and expenses are billed to the trustor corporation rather than deducted from the trust accounts.

12. **Transfer Agent**

The owner's interest in a corporation is commonly expressed in shares. The number of shares owned in a corporation is evidenced by a stock certificate. This certificate is usually signed by two officers of the corporation, bears the seal of corporation, has a number indicating chronological order of issuance, shows the number of shares for which issued, and states the type of stock and shareholder's name. The names and holders of shares are recorded in the book of the corporation.

When the shareholder wishes to sell his shares in the corporation, he endorses the certificate on the bank, or signs a separate assignment, if any, to a broker or directly to the person who is buying it. The transfer of title to the certificate must pass through the corporation books. This transfer is either affected by the corporation or by its transfer agent appointed for the purpose. The corporation may appoint the Trust Department of a bank as its transfer agent. A transfer agent is recommended if the stock is traded in the stock exchange since transfers are effected rapidly and skillfully.

13. **Trustee Under Corporate Mortgage**

Corporations borrowing for long periods require large amount of funds which cannot be provided by one lender. Through the medium of the trust company or investment banker, bonds are sold to investors in convenient denominations; say P100, P200, P500 etc. this bond issue may be secured by mortgage on property deeded to the Bank in its fiduciary capacity. In the event of default by the issuing corporation, the trustee can deal with the property in satisfaction of the liability to the bondholders. The indenture or mortgage deed or trust agreement under which title is held authorizes the bank as trustee to encumber or sell the property and to use specific funds for the payment of interest and principal. The method of redemption or call of the bond is set forth, together with sinking fund provisions and procedure, in the event of default.

14. **Sinking Funds**

Sinking funds are amounts set aside for the redemption of bonds. They may either be cash or securities, dependent upon the terms of the trust. The agreement usually stipulates how such funds are to accumulate and how and when they are to be disbursed.

15. **Coupon Paying Agent**

Bond interest coupons are paid by the Trust Department from funds provided for that purpose by the issuing corporation. Funds equal in amount to the face value of coupons currently due on the bonds

BANKING OFFICES

HEAD OFFICE

Philtrust Bank Building
United Nations Avenue Corner San Marcelino Street, Manila
Tel No. 8524-9061   Fax No. 8521-7309

METRO MANILA BRANCHES

AURORA BOULEVARD BRANCH
904 Aurora Blvd. cor. Harvard St.,
Cubao, Quezon City
Tel. Nos. 8911-1539; 8911-3367; 8911-3082
8421-6599, 8911-0917 (Fax)

AYALA AVENUE BRANCH
G/F Unit 121 Shangrila Arcade *
Ayala Ave. cor. West Street
Makati City
Tel. Nos. 8810-0516; 8810-0529; 8810-0521

BAMBANG BRANCH
Philtrust Building
No. 1499 G. Masangkay St.
corner Bambang Street
Tondo, Manila
Tel. Nos. 8244-9229; 8243-5540; 8244-9230

BINONDO BRANCH
Philtrust Building
Quintin Paredes corner
Dasmariñas and Plaza Cervantes
Binondo, Manila
Tel. Nos. 8241-6101 to 02; 8241-2584

CALOOCAN BRANCH
Philtrust Building
Samson Road, Caloocan City
Tel. Nos. 8362-3651 to 52; 8364-4522

DIVISORIA BRANCH
Philtrust Building
535 C.M. Recto Avenue corner Carmen Planas St.
Tondo, Manila
Tel. Nos. 8241-8030; 8241-8092; 8241-8051

EDSA MUÑOZ BRANCH
1167 EDSA cor. Roosevelt Avenue
Quezon City
8376-7363, 8376-7364,3410-1047, 3410-1057

ELCANO BRANCH
Philtrust Building
677 Elcano cor. Lavezares St.,Binondo, Manila
Tel Nos. 8242-3363; Fax 8242-3375; 8242-3369

ERMITA BRANCH
Philtrust Building
1111 A. Mabini corner U.N. Avenue
Manila
Tel. Nos. 8708-9640 to 43

ESCOLTA BRANCH
Philtrust Building
277 Escolta St.
Binondo, Manila
Tel. Nos. 8245-7722; 8245-7724; 8245-7734

GRACE PARK BRANCH
225 Rizal Avenue Extn. Grace Park
Caloocan City
Tel Nos. 8364-1571, 8363-8188, 8363-8185
8363-8177, 8364-1571 to 72, 8361-9529,
8361-9234, 8362-0111

GREENHILLS BRANCH
Metrosquare Building
224 Ortigas Avenue
North Greenhills, San Juan City
Tel Nos. 8724-5731; 8531-4297

JUAN LUNA BRANCH
Philtrust Building
395 Juan Luna corner San Fernando St.
Binondo, Manila
Tel. Nos. 8245-4081 to 85

LAS PIÑAS BRANCH
Philtrust Building
Alabang - Zapote Road
Almanza Uno, Las Piñas City
Tel Nos.7738-1058; 8801-8975

LIBERTAD BRANCH
Philtrust Building
0291 A. Arnaiz Avenue corner Taft Avenue
Pasay City
Tel. Nos. 8833-0554; 8833-0556 to 58

MAKATI BRANCH
835 Liberty Building
A. Arnaiz Avenue, Makati City
Tel. Nos. 8893-6432; 8893-6333; 8892-6706 to 07

MAKATI-TORDESILLAS BRANCH
101 Le Metropole Condominium
G. Puyat Avenue corner Tordesillas St.
Makati City
Tel. Nos. 8813-4955; 8892-0131; 7753-3538 to 39

MALABON CITY BRANCH
19 Rizal Avenue corner. Leoño St.
Tañong, Malabon City
Tel Nos. 8376-2157; 8921-0075

MALATE BRANCH
435 Remedios corner M.H. del Pilar St.
Manila
Tel. Nos. 8523-4914; 8524-9350; 8525-6737

MANDALUYONG BRANCH
Philtrust Building
Shaw Blvd. cor. Kalentong St.,
Mandaluyong City
Tel. No. 8531-4950,8534-6095 to 98

MARIKINA CITY
Philtrust Building
Sumulong Highway corner P. Burgos St.
Sto. Niño, Marikina City
Tel Nos. 8997-9300; 8631-4447

MAYPAJO BRANCH
Philtrust Building
A. Mabini corner L. Lupa Sts.
Maypajo, Caloocan City
Tel Nos. 8990-7594; 8921-8198

MORAYTA BRANCH
Philtrust Building
890-892 Dr. Nicanor Reyes St., corner
R. Papa St., Sampaloc, Manila
Tel. Nos. 8733-9711; 8735-4529; 8733-5512

NAIA 1 BRANCH
Departure Level, NAIA 1
Parañaque City
Tel. Nos. 8831-4944; 8851-5553

NAIA 3 EXTENSION OFFICE
12 Arrival Level, NAIA Terminal 3
Pasay City
Tel. Nos. 8831-5481; 8552-8174

ONGPIN BRANCH
800 Ongpin corner S. Padilla Sts.
Binondo, Manila
Tel. Nos. 8733-1405; 8733-7754; 8733-7745

ORTIGAS BRANCH
Unit B1 OMM-CITRA Condominium
San Miguel Avenue, Ortigas Center
Pasig City
Tel Nos. 8635-4069; 8638-4145; 8638-4132

PACO BRANCH
Simplicia Building
1158 Pedro Gil corner Angel Linao Sts.
Paco, Manila
Tel. Nos. 8521-0283 to 86

PADRE RADA BRANCH
948 Ilaya St. cor. Padre Rada St.
Tondo, Manila
Tel. Nos. 8243-6067 to 70

PASIG BRANCH
Philtrust Building
159 Dr. Sixto Antonio Avenue, Pasig City
Tel. Nos. 8641-5365; 8628-1447

PUYAT AVENUE BRANCH
Philtrust Building
259 Gil Puyat Avenue
Makati City
Tel. Nos. 8843-3901; 8843-3902; 8843-3911

QUEZON AVE. BRANCH
101 Quezon Avenue corner
Sto. Domingo St., Quezon City
Tel. Nos. 8712-2748; 8732-5076; 8711-8326

QUIAPO BRANCH
252 Villalobos St.,
Quiapo, Manila
Tel. Nos. 8733-5511; 8733-5513

REINA REGENTE BRANCH
Philtrust Building
948 Reina Regente corner Soler Sts.
Binondo, Manila
Tel Nos. 8245-4413; 8245-4328; 8245-4415

STA CRUZ BRANCH
Philtrust Building
Plaza Lacson cor. Rizal Avenue,
Sta. Cruz, Manila
8733-0528, 8733-0351 to 52, 8733-0348
8733-0525, 8733-0353

SUCAT BRANCH
Philtrust Building
Dr. A. Santos Avenue corner Sta. Rita St.
Parañaque City
Tel. Nos. 8820-7381 to 85

TABORA BRANCH
Tabora corner M. De Santos Sts.
San Nicolas, Manila
Tel Nos. 8354-8679 to 80

TAFT AVENUE BRANCH
1844 Taft Avenue
Pasay City
Tel. Nos. 8536-0011; 8526-0653 ; 8536-5051

TAGUIG CITY BRANCH
Unit-101 A, One Global Place
5th Avenue corner 25th St.
Bonifacio Global City, Taguig
Tel Nos. 8519-6112; 8519-5035; 8519-5244

VALENZUELA BRANCH
Philtrust Building
MacArthur Highway (in front of Valenzuela City Hall) Malinta, Valenzuela City
Tel. Nos. 8294-0671 to 72; 8292-0177

PROVINCIAL BRANCHES

ANGELES CITY BRANCH
Philtrust Building
Mc Arthur Highway
corner B. Aquino St., Angeles City
Pampanga
Tel Nos. (045) 625-3617; 625-3616

BACOLOD BRANCH
Philtrust Building
Gatuslao corner Cuadra Sts.
Bacolod City
Tel Nos. (034) 432-1715; 432-1714; 708-0538

BATANGAS BRANCH
Rizal Avenue cor. P. Gomez St.
Batangas City, Batangas
Tel Nos. (043) 702-6286; 7026732

BULACAN BRANCH
Philtrust Building
Paseo del Congreso St., San Gabriel
Malolos City, Bulacan
Tel. Nos. (044) 931-3255; 931-2037

CAGAYAN DE ORO BRANCH
Philtrust Building
S. Osmeña St., corner J. Ramonal St.
Cogon District, Cagayan de Oro City
Misamis Oriental
Tel Nos. (088) 231-6694; 880-7234

CABANATUAN CITY BRANCH
Philtrust Building
Burgos Avenue, corner Beedle St.
Cabanatuan City
Tel Nos. (044) 940-8752; 951-0421

CAVITE BRANCH
Philtrust Building
Km. 41 E. Aguinaldo Highway
Silang, Cavite
Tel. Nos. (046) 414-3136; 865-3490; 865-3491

CEBU MAGALLANES BRANCH
Philtrust Building
Magallanes corner F. Gonzales Sts.
Cebu City
Tel Nos. (032) 254-9892; 416-9045; 256-1298

CEBU FUENTE OSMEÑA BRANCH
Osmeña Boulevard corner J. Llorente St.
Cebu City
Tel Nos. (032) 255-5199; 254-5139

CEBU COLON BRANCH
Philtrust Building
Colon cor. D. Jakosalem Sts.
Cebu City
Tel Nos. (032) 253-3054; 254-7306; 414-9292

DAVAO RECTO BRANCH
Caritas Building
Claro M. Recto St., San Pedro
Davao City
Tel Nos. (082) 227-7001; 227-6231; 305-9339

DAVAO STA. ANA BRANCH
Philtrust Building
Monteverde Ave. corner F. Bangoy St.
Davao City
Tel Nos. (082) 221-0755; 305-7280; 305-7172

DUMAGUETE CITY BRANCH
Philtrust Building
Silliman Avenue corner Real St.
Dumaguete City, Negros Oriental
Tel Nos. (035) 522-3234; 522-3556

ILOILO CITY BRANCH
Philtrust Building
Quezon St. corner Delgado St.
Iloilo City
Tel Nos. (033) 336-8772; 338-2615

LA UNION BRANCH
Diocesan Center
11 P. Gomez St.
San Fernando City, La Union
Tel No. (072) 242-2307; 700-3144

LIMAY BRANCH
Philtrust Building
Bgy. Luz, National Road
Limay, Bataan
Tel Nos. (047) 244-5728; 633-0098

LUCENA CITY BRANCH
Quezon Ave. corner Don Queblar St.
Lucena City, Quezon
Tel Nos. (042) 710-9071 to 72; 3229787

NAGA CITY BRANCH
Philtrust Building
Caceres corner Elias Angeles Sts.
Naga City, Camarines Sur
Tel Nos. (054) 472-3491; 811-8651

ROXAS CITY BRANCH
Philtrust Building
Roxas Ave. corner Primero de Mayo St.
Roxas City, Capiz
Tel Nos. (036) 621-3062; 621-7648

SANTIAGO CITY BRANCH
Philtrust Building
Maharlika Highway corner Abauag St.
Malvar, Santiago City, Isabela
Tel Nos. (078) 305-2692; 305-2891

URDANETA CITY BRANCH
Philtrust Building
MacArthur Highway corner Ambrosio St.
Urdaneta City, Pangasinan
Tel Nos. (075) 522-3721; 540-2065

OPENING SOON

ALABANG BRANCH
GENERAL SANTOS CITY BRANCH
KALIBO CITY BRANCH
LAOAG CITY BRANCH
MANDAUE CITY BRANCH
OZAMIZ CITY BRANCH
TARLAC CITY BRANCH
TUGUEGARAO CITY BRANCH

Bank website

For more information about the Bank, its products and services, please visit **www.philtrustbank.com**

PHILTRUST BANK
PHILIPPINE TRUST COMPANY
PHILTRUST BANK BUILDING
UNITED NATIONS AVE. CORNER SAN MARCELINO ST.,
MANILA, PHILIPPINES

TEL.: 8524-90-61 TO 76
3498-01-90 TO 99
FAX: 8521-73-09 / 3498-02-00
SWIFT: PHTBPHMM
EMAIL: ptc@philtrustbank.com

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **PHILTRUST BANK (Philippine Trust Company)** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2023 and 2022, 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 and 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 in 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.

REYES TACANDONG & 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 or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

GEN. HERMOGENES C. ESPERON JR. (Ret.)
Chairman of the Board

JAIME C. LAYA
President

LUISA A. LUCIN
Chief Finance Officer

REPUBLIC OF THE PHILIPPINES)
CITY OF MANILA)s.s.

Subscribed and sworn to before me this MAR 19 2024, affiants exhibiting to me their respective Tax Identification Numbers, as follows:

Gen. Hermogenes C. Esperon Jr. (Ret)	TIN 131-924-617
Jaime C. Laya	TIN 103-175-586
Luisa A. Lucin	TIN 109-213-381

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Book No. II
Series of 2024

March 19, 2024

NEMESIO M. DOMINGO
Commission No. 2023-164
Notary Public for the City of Manila
Until December 31, 2024
1000 U.N. Ave. Cor. San Marcelino St., Manila
MCLE Compliance No. VII-0027372, 03/28/23
Roll No. 43903 / 05-07-99
PTR No. 1534158, 01/02/2024 Manila
IBP No. 03932 / Isabela
TIN 109-213-922

Philippine Trust Company (Philtrust Bank)

Financial Statements
December 31, 2023, 2022 and 2021

With independent auditors' report provided by

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

BOA/PRC Accreditation No. 4782
August 16, 2021, valid until April 13, 2024
SEC Registration No. PP201007009

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8741 Paseo de Roxas
Makati City 1226 Philippines
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Website : www.reyestacandong.com

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine Trust Company (Philtrust Bank)
Philtrust Bank Building, 1000 United Nations Avenue
corner San Marcelino Street, Manila

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Philippine Trust Company (Philtrust Bank) (the Bank), which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2023, 2022 and 2021, and notes to financial statements, including the material accounting policy information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years ended December 31, 2023, 2022 and 2021 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. 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 the audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements as at and for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<u>Accounting for Investment Securities</u>
The Bank has investment securities, which consist of financial assets at amortized cost and financial assets at fair value through other comprehensive income (FVOCI) amounting to ₱107,994.8 million and ₱19,482.0 million, respectively, as at December 31, 2023. The accounting for these investment securities is considered significant to our audit because in aggregate, it comprises 72.25% of the total assets, and is substantial in relation to the financial statements taken as a whole.

We have assessed the propriety of the recognition, classification and measurement, as well as management's assessment of impairment of these investment securities. Our audit procedures, included, among others, (a) understanding of the financial asset management and recording process; (b) verifying the existence of these investment securities by obtaining confirmations from custodians and examination of underlying documents; (c) evaluating the propriety of the classification of the investment securities based on a duly approved business model; (d) testing the reasonableness of recognized interest income and the changes in fair values of financial assets at FVOCI; and (e) evaluating management's assessment of impairment losses on financial assets based on expected credit losses.

We also reviewed the relevant disclosures affecting investment securities which are included in Note 8 to the financial statements.

Completeness and Accuracy of Loans and Receivables and Interest Income

The Bank has continued to utilize its traditional procedures and processes in maintaining loan records. Worksheets were prepared to summarize the terms and relevant information of the outstanding loans. Outstanding loans and receivables as at December 31, 2023 amounting to ₱26,533.5 million, net of allowance for credit and impairment losses, represent 15.04% of the Bank's total assets. Moreover, the related interest income on loans and receivables amounting to ₱1,685.9 million in 2023 represents 19.95% of the total revenue.

Due to the significant volume of transactions and various payment terms and conditions of the loan accounts, extensive manual procedures were performed to ensure the completeness and validity of the loans and receivables, reasonableness of the interest income and accrued interest, and timely and proper monitoring of loan account status.

Our audit procedures included, among others, (a) obtaining an understanding of the recording and loan administration processes; (b) verifying the spreadsheet summary of significant loan accounts prepared by the Bank by comparing the same with relevant loan documents and ensuring the completeness of loan records; (c) re-computing the interest income and accrued interest of significant loan accounts in accordance with the terms and conditions reflected in the loan summaries; and (d) validating the status of the significant loan accounts on a sample basis.

We also reviewer the relevant disclosures affecting loans and receivables and interest income which are presented in Note 9 to the financial statements.

Adequacy of Allowance for Credit and Impairment Losses on Loans and Receivables

The Bank recognized allowance for credit and impairment losses on loans and receivables amounting to ₱3,310.1 million as at December 31, 2023 using the expected credit loss (ECL) model.

The Bank's allowance for credit and impairment losses on loans and receivables is significant to our audit because it involves the exercise of significant management judgment, which include, among others, (a) determining the appropriate groupings of the Bank's credit risk exposures to establish the portfolio of counterparties with similar credit risk characteristics; (b) defining what constitutes a default; (c) determining the appropriate method to estimate the ECL; (d) identifying the exposures with significant increase in credit risk; (e) determining the relevant assumptions to be used in the ECL model; and (f) incorporating the appropriate forward-looking information in the ECL calculation.

Our audit procedures include understanding the methodologies and ECL model used by the Bank and assessing the compliance with the key requirements of PFRS 9, *Financial Instruments*. We have performed an independent assessment of the significant management judgment incorporated in and used in the preparation of the ECL model.

We have also assessed the reliability of the data used in the ECL model through inspection of the source data. On a sample basis, we have also performed recalculation of the allowance and provision for credit and impairment losses on loans and receivables.

We also checked the adequacy of disclosures made by the Bank in relation to the requirements of PFRS 9 and the discussion of the methodologies used and the related financial impact as disclosed in Notes 4, 9 and 13 to the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2023, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2023 are expected to be made available to us after the date of this auditors' 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 in the foregoing when these become 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 these financial statements in accordance with PFRS, 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.

Auditors' 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 auditors' 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 PSA 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, these could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with PSA, 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 auditors' 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 auditors' 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 audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditors' report is Haydee M. Reyes.

Report on the Supplementary Information Required under Section 174 and Appendix 55 of the Manual of Regulations for Banks by the Bangko Sentral ng Pilipinas, *Disclosure Requirements to the Audited Financial Statements*

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on Note 30 to the financial statements is presented for purposes of filing with the BSP and is not a required part of the basic financial statements. Such supplementary information is the responsibility of the management of Philippine Trust Company (Philtrust Bank). The supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

REYES TACANDONG & CO.

HAYDEE M. REYES
Partner
CPA Certificate No. 83522
Tax Identification No. 102-095-265-000
BOA Accreditation No. 4782; Valid until April 13, 2024
BIR Accreditation No. 08-005144-006-2022
Valid until October 16, 2025
PTR No. 10072408
Issued January 2, 2024, Makati City

March 19, 2024
Makati City, Metro Manila

PHILIPPINE TRUST COMPANY (PHILTRUST BANK)

STATEMENTS OF FINANCIAL POSITION

Amounts in Thousands

	Note	December 31 2023	2022
ASSETS			
Cash and other cash items	6	**₱1,087,157**	₱1,035,708
Due from Bangko Sentral ng Pilipinas	6	**11,579,430**	17,194,897
Due from other banks	6	**1,169,066**	1,196,557
Securities purchased under resale agreement	7	**2,336,535**	1,381,191
Investment securities	8	**127,476,800**	121,411,352
Loans and receivables	9	**26,533,533**	21,074,445
Property and equipment	10	**3,304,479**	3,187,581
Investment properties	11	**2,220,428**	2,005,435
Deferred tax assets – net	26	**372,194**	544,689
Other assets	12	**357,016**	323,510
		₱176,436,638	₱169,355,365
LIABILITIES AND EQUITY			
Liabilities			
Deposit liabilities	14	**₱151,698,140**	₱147,072,526
Accrued interest, taxes and other expenses	15	**376,773**	208,389
Manager's checks		**155,863**	142,903
Unearned interest	8	**392,861**	–
Lease liabilities	24	**303,940**	193,870
Other liabilities	16	**335,838**	269,224
Total Liabilities		**153,263,415**	147,886,912
Equity			
Capital stock	18	**10,000,000**	10,000,000
Reserves	18	**72,500**	72,320
Retained earnings		**15,928,534**	15,351,835
Other equity reserves		**(2,827,811)**	(3,955,702)
Total Equity		**23,173,223**	21,468,453
		₱176,436,638	₱169,355,365

See accompanying Notes to Financial Statements.

PHILIPPINE TRUST COMPANY (PHILTRUST BANK)

STATEMENTS OF INCOME

Amounts in Thousands, except Basic and Diluted Earnings per Share

	Note	**2023**	2022	2021
		Years Ended December 31		
INTEREST INCOME ON:				
Investment securities	8	**₱6,228,442**	₱3,804,370	₱2,746,773
Loans and receivables	9	**1,685,932**	1,128,101	1,048,431
Deposits from Bangko Sentral ng Pilipinas and other banks	6	**386,719**	557,439	560,440
Securities purchased under resale agreement	7	**149,497**	69,579	49,287
		8,450,590	5,559,489	4,404,931
INTEREST EXPENSE ON DEPOSIT LIABILITIES	14	**5,308,184**	2,738,469	1,936,965
NET INTEREST INCOME		**3,142,406**	2,821,020	2,467,966
NET PROVISION (REVERSAL OF ALLOWANCE) FOR CREDIT AND IMPAIRMENT LOSSES	13	**(831,398)**	(157,393)	254,429
OTHER INCOME				
Gain on:				
Sale of investment securities	8	**634,343**	250,257	770,545
Foreclosure of properties	11	**106,473**	140,884	36,210
Sale of investment properties	11	**7,378**	28,564	265,347
Service fees and commissions		**62,691**	56,222	46,846
Net foreign exchange gains		**36,295**	163,154	49,473
Others - net	20	**77,510**	128,054	87,962
		924,690	767,135	1,256,383
OPERATING EXPENSES				
Compensation and employee benefits	21	**1,012,151**	925,607	874,323
Occupancy and equipment-related expenses	22	**208,817**	179,641	176,255
Others	23	**1,381,558**	1,206,997	1,037,612
		2,602,526	2,312,245	2,088,190
INCOME BEFORE INCOME TAX		**2,295,968**	1,433,303	1,381,730
INCOME TAX EXPENSE	26	**1,266,859**	688,017	555,392
NET INCOME		**₱1,029,109**	₱745,286	₱826,338
BASIC AND DILUTED EARNINGS PER SHARE	19	**₱1.03**	₱0.75	₱0.83

See accompanying Notes to Financial Statements.

PHILIPPINE TRUST COMPANY (PHILTRUST BANK)

STATEMENTS OF COMPREHENSIVE INCOME

Amounts in Thousands

		Years Ended December 31		
	Note	**2023**	2022	2021
NET INCOME		**₱1,029,109**	₱745,286	₱826,338
OTHER COMPREHENSIVE INCOME (LOSS)				
Items to be reclassified to profit or loss:				
Net unrealized gains (losses) on fair value changes of debt securities	8	**599,836**	(5,025,011)	(1,167,794)
Translation adjustment		**9,664**	132,647	48,968
Items not to be reclassified to profit or loss:				
Net unrealized gains (losses) on fair value changes of equity securities	8	**65,408**	(446,917)	(553,175)
Remeasurement gain (loss) on retirement liability, net of deferred tax	21	**753**	(525)	(474)
		675,661	(5,339,806)	(1,672,475)
TOTAL COMPREHENSIVE INCOME (LOSS)		**₱1,704,770**	(₱4,594,520)	(₱846,137)

See accompanying Notes to Financial Statements.

PHILIPPINE TRUST COMPANY (PHILTRUST BANK)

STATEMENTS OF CHANGES IN EQUITY

Amounts in Thousands

		Years Ended December 31		
	Note	**2023**	2022	2021
CAPITAL STOCK	18	**₱10,000,000**	₱10,000,000	₱10,000,000
RESERVES	18			
Balance at beginning of year		**72,320**	72,320	72,320
Additional appropriation		**180**	–	–
Balance at end of year		**72,500**	72,320	72,320
RETAINED EARNINGS				
Balance at beginning of year		**15,351,835**	14,675,066	13,848,728
Net income		**1,029,109**	745,286	826,338
Realized fair value loss	8	**(452,230)**	(68,517)	–
Appropriation to reserve for self-insurance	18	**(180)**	–	–
Balance at end of year		**15,928,534**	15,351,835	14,675,066
OTHER EQUITY RESERVES				
Cumulative Unrealized Gains (Losses) on Fair Value Changes of Investment Securities	8			
Balance at beginning of year		**(4,284,805)**	1,118,606	2,839,575
Net unrealized gains (losses)		**665,244**	(5,471,928)	(1,720,969)
Realized fair value loss		**452,230**	68,517	–
Balance at end of year		**(3,167,331)**	(4,284,805)	1,118,606
Cumulative Translation Adjustment				
Balance at beginning of year		**321,907**	189,260	140,292
Translation adjustment		**9,664**	132,647	48,968
Balance at end of year		**331,571**	321,907	189,260
Cumulative Remeasurement Gains on Retirement Liability	21			
Balance at beginning of year		**7,196**	7,721	8,195
Net remeasurement gain (loss), net of deferred tax and effect of change in tax rate		**753**	(525)	(474)
Balance at end of year		**7,949**	7,196	7,721
		(2,827,811)	(3,955,702)	1,315,587
		₱23,173,223	₱21,468,453	₱26,062,973

See accompanying Notes to Financial Statements.

PHILIPPINE TRUST COMPANY (PHILTRUST BANK)

STATEMENTS OF CASH FLOWS

Amounts in Thousands

	Note	Years Ended December 31		
		2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱2,295,968**	₱1,433,303	₱1,381,730
Adjustments for:				
Net provision (reversal of allowance) for credit and impairment losses:	13			
Loans and receivables		**(821,496)**	–	113,322
Investment securities		**(9,902)**	(157,393)	141,107
Gain on sale of:				
Investment securities	8	**(634,343)**	(250,257)	(770,545)
Investment properties	11	**(7,378)**	(28,564)	(265,347)
Property and equipment	10	**(164)**	(43,103)	(2,237)
Depreciation and amortization	10	**194,833**	175,035	148,379
Gain on foreclosure of properties	11	**(106,473)**	(140,884)	(36,210)
Amortization of premium/discount of investment securities	8	**88,201**	137,992	(2,033,094)
Retirement benefits	21	**50,705**	54,192	51,067
Accretion on receivable	9	**(43,969)**	–	–
Provision for impairment losses on investment properties	11	**19,380**	40,689	–
Interest expense on lease liabilities	24	**11,307**	9,999	8,961
Dividend income	20	**(4,143)**	(14,557)	(15,223)
Gain on pre-termination of lease contract	24	**(705)**	–	–
Operating income (loss) before working capital changes		**1,031,821**	1,216,452	(1,278,090)
Decrease (increase) in:				
Loans and receivables		**(3,581,709)**	(2,610,422)	157,110
Other assets		**(38,020)**	(69,805)	(32,259)
Increase (decrease) in:				
Deposit liabilities		**4,625,614**	1,757,847	4,487,098
Manager’s checks		**12,960**	(185,900)	234,638
Accrued interest, taxes and other expenses		**168,384**	52,328	(73,174)
Unearned interest		**392,861**	–	–
Other liabilities		**67,356**	33,171	8,010
Net cash generated from operations		**2,679,267**	193,671	3,503,333
Income tax paid		**(1,094,614)**	(653,512)	(435,490)
Contributions to the retirement fund	21	**(50,443)**	(54,010)	(51,009)
Net cash provided by (used in) operating activities		**1,534,210**	(513,851)	3,016,834
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Investment securities	8	**(699,521,625)**	(514,199,641)	(289,667,719)
Property and equipment	10	**(94,654)**	(420,808)	(269,543)
Computer software	12	**(5,467)**	(611)	(24,763)

(Forward)

	Note	Years Ended December 31 2023	2022	2021
Proceeds from:				
Maturities/disposal of investment securities	8	**₱693,244,543**	₱477,585,883	₱275,036,396
Sale of investment properties	11	**24,784**	52,353	340,218
Sale of property and equipment	10	**11,165**	167,837	132,004
Dividend received		**1,614**	14,557	15,223
Net cash used in investing activities		**(6,339,640)**	(36,800,430)	(14,438,184)
CASH FLOW FROM A FINANCING ACTIVITY				
Payments of lease liabilities	24	**(73,662)**	(61,266)	(54,527)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**242,927**	132,647	48,968
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(4,636,165)**	(37,242,900)	(11,426,909)
CASH AND CASH EQUVALENTS AT BEGINNING OF YEAR				
Cash and other cash items		**1,035,708**	966,923	1,053,253
Due from Bangko Sentral ng Pilipinas		**17,194,897**	41,936,529	53,609,068
Due from other banks		**1,196,557**	2,196,721	2,056,689
Securities purchased under resale agreement		**1,381,191**	12,951,080	12,759,152
		20,808,353	58,051,253	69,478,162
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items	6	**1,087,157**	1,035,708	966,923
Due from Bangko Sentral ng Pilipinas	6	**11,579,430**	17,194,897	41,936,529
Due from other banks	6	**1,169,066**	1,196,557	2,196,721
Securities purchased under resale agreement	7	**2,336,535**	1,381,191	12,951,080
		₱16,172,188	₱20,808,353	₱58,051,253
OPERATING CASH FLOWS FROM INTEREST				
Interest received		**₱8,872,824**	₱5,724,714	₱4,481,248
Interest paid		**5,279,862**	2,700,256	1,985,170
NONCASH INFORMATION				
Recognition of:				
Receivable resulting from sale of investment in quoted equity instruments	8	**₱1,199,662**	₱–	₱–
Right-of-use assets	10	**179,044**	64,629	42,904
Lease liabilities	24	**178,174**	64,629	42,904
Foreclosure of properties	11	**296,748**	440,657	95,970

See accompanying Notes to Financial Statements.

1. General Information

Philippine Trust Company (Philtrust Bank) (the Bank) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP). The Bank is primarily engaged in commercial banking. The Bank offers a wide range of products and services such as deposit products, loans, international services, treasury and trust functions. The Bank also provides investment management, estate administration, escrow services, insurance and pension plans, stock registry and transfer services.

The Bank is one of the oldest private commercial banks in the Philippines and was issued with a Certificate of Incorporation by the SEC on October 21, 1916.

The Bank has its primary listing on the Philippine Stock Exchange, Inc. (PSE) on February 17, 1988.

The Bank was conferred full universal bank status on June 5, 2007.

As at December 31, 2023 and 2022, the Bank operates a total of 61 branches. The Bank has 78 automated teller machines (ATM): 53 on-site distributed at its head office and branches and 25 off-site in 2023 and 76 ATM: 51 on-site and 25 off-site in 2022.

The principal office of the Bank is at Philtrust Bank Building, 1000 United Nations Avenue corner San Marcelino Street, Manila.

Approval of the Financial Statements

The financial statements of the Bank as at December 31, 2023 and 2022 and for the years ended December 31, 2023, 2022 and 2021 were approved and authorized for issuance by the Board of Directors (BOD) on March 19, 2024, as recommended for approval by the Audit Committee on March 15, 2024.

2. Material Accounting Policy Information

Basis of Preparation and Statement of Compliance

The financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial and Sustainability Reporting Standards Council and adopted by the SEC.

This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), and the SEC provisions. The accounting principles adopted by the Bank were consistently applied with those in the previous years.

Measurement Bases
The financial statements have been prepared on a historical cost basis, except for:

- Financial assets measured at fair value through other comprehensive income (FVOCI).

- Retirement liability that is carried at the present value of defined benefit obligation less fair value of plan asset.

- Lease liability recognized at the present value of the unpaid lease payments.

Historical cost is generally based on the fair value of the consideration given in exchange for an asset and fair value of the consideration received in exchange for incurring a liability. 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 Bank uses observable market data as far as possible when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

- Level 1 - quoted (unadjusted) market prices in active market for identical assets or liabilities;

- Level 2 - valuation techniques for which the lowest level of input that is significant to the fair value measurement is directly or indirectly observable;

- Level 3 - valuation techniques for which the lowest level of input that is significant to the fair value measurement is unobservable.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting year during which the change has occurred.

Information about the assumptions made in measuring fair values is included in Note 4*, Financial Risk Management.*

Functional and Presentation Currency
The financial statements are presented in Philippine Peso. The financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). Items in the financial statements of each banking unit are measured using the currency of the primary economic environment in which the banking unit operates (the functional currency).

The functional currency of the RBU and FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, the FCDU accounts are translated into their equivalent amounts in Philippine Peso. The financial statements of RBU and FCDU are combined after eliminating inter-unit accounts.

All values are rounded to the nearest thousands, unless otherwise indicated.

Presentation of Financial Statements
The Bank presents its statements of financial position broadly in the order of liquidity. An analysis of recoveries or settlements within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 17, *Classification of Assets and Liabilities.*

Adoption of Amendments to PFRS
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amendments to PFRS effective January 1, 2023:

- Amendments to PAS 1, *Presentation of Financial Statements,* and PFRS Practice Statement 2, *Making Materiality Judgments - Disclosure Initiative - Accounting Policies* – The amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies and provide guidance on how an entity applies the concept of materiality in making decisions about accounting policy disclosures. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and its nature. The amendments clarify (1) that accounting policy information may be material because of its nature, even if the related amounts are immaterial, (2) that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and (3) if an entity discloses immaterial accounting policy information, such information should not obscure material accounting policy information. In addition, PFRS Practice Statement 2 is amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information.

- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates* – The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies, and the correction of errors. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". An entity develops an accounting estimate if an accounting policy requires an item in the financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the profit or loss in the current period, or the profit or loss of both the current and future periods.

- Amendments to PAS 12, *Income Taxes - Deferred Tax Related Assets and Liabilities from a Single Transaction* – The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

- Amendments to PAS 1, *Classification of Liabilities as Current or Noncurrent* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity's right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments.

The adoption of the amendments to PFRS did not materially affect the financial statements of the Bank. Additional disclosures were included in the financial statements, as applicable.

<u>Amendments to PFRS Issued but Not yet Effective</u>
Relevant amendments to PFRS, which are not yet effective as at December 31, 2023 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2024:

- Amendments to PFRS 16, *Leases - Lease Liability in a Sale and Leaseback* – The amendments clarify that the liability that arises from a sale and leaseback transaction, that satisfies the requirements in PFRS 15, *Revenue from Contracts with Customers,* to be accounted for as a sale, is a lease liability to which PFRS 16 applies and give rise to a right-of-use asset. For the subsequent measurement, the seller-lessee shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying this subsequent measurement does not prevent the seller-lessee from recognizing any gain or loss relating to the partial or full termination of a lease. Any gain or loss relating to the partial or full termination of the lease does not relate to the right of use retained but to the right of use terminated. The amendments must be applied retrospectively. Earlier application is permitted.

- Amendments to PAS 1, *Noncurrent Liabilities with Covenants* – The amendments clarified that covenants to be complied with after the reporting date do not affect the classification of debt as current or noncurrent at the reporting date. Instead, the amendments require the entity to disclose information about these covenants in the notes to the financial statements. The amendments must be applied retrospectively. Earlier application is permitted. If applied in earlier period, the Company shall also apply Amendments to PAS 1 - *Classification of Liabilities as Current or Noncurrent* for that period.

Effective for annual periods beginning on or after January 1, 2025:

- Amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates - Lack of Exchangeability* – The amendments clarify when a currency is considered exchangeable into another currency and how an entity determines the exchange rate for currencies that lack exchangeability. The amendments also introduce new disclosure requirements to help users of financial statements assess the impact when a currency is not exchangeable. An entity does not apply the amendments retrospectively. Instead, an entity recognizes any effect of initially applying the amendments as an adjustment to the opening balance of retained earnings when the entity reports foreign currency transactions. When an entity uses a presentation currency other than its functional currency, it recognizes the cumulative amount of translation differences in equity. Earlier application is permitted.

Under prevailing circumstances, the adoption of the foregoing amendments to PFRS is not expected to have any material effect on the financial statements of the Bank. Additional disclosures will be included in the notes to financial statements, as applicable.

Financial Instruments

Date of Recognition. The Bank recognizes a financial asset or a liability in the statement of financial position when the Bank becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction cost.

"Day 1" Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable data on inception, the Bank deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the "Day 1" difference.

Financial Assets

Classification. The Bank classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at FVOCI and (c) financial assets at amortized cost.

The classification of a financial asset largely depends on the Bank's business model and its contractual cash flow characteristics.

The Bank does not have financial assets at FVPL as at December 31, 2023 and 2022.

Financial Assets at FVOCI - Debt Securities. For debt securities that are not designated at FVPL under the fair value option, the financial assets are measured at FVOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and sell the financial assets; and

- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These debt securities are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment losses of debt securities measured at FVOCI are recognized directly in profit or loss. Fair value changes are recognized in other comprehensive income and presented in the equity section of the statement of financial position. When the financial asset is derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

Investments in government securities are included in this category.

Financial Assets at FVOCI - Equity Instruments. On initial recognition, equity instruments that are not held for trading may be irrevocably designated as a financial asset measured at FVOCI.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in other comprehensive income and presented in the equity section of the statement of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent years. On disposal of these equity securities, any cumulative gains or losses will be reclassified to retained earnings.

Quoted and unquoted equity securities are classified under this category.

Financial Assets at Amortized Cost. Financial assets should be measured at amortized cost if both of the following conditions are met:

- it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less any allowance for credit and impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Gains and losses are recognized in profit or loss when the financial assets are derecognized and through the amortization process.

Cash and other cash items, due from BSP and other banks, securities purchased under resale agreement, loans and receivables, government securities and corporate bonds (presented under "Investment securities" account), refundable deposits, other investments and returned checks and other cash items (RCOCI), included under "Other assets" account, are classified under this category.

Reclassification. The Bank reclassifies its financial assets when, and only when, the Bank changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting year following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, the financial asset is reclassified at its fair value at the reclassification date, and the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date.

Impairment. The Bank recognizes an allowance for expected credit losses (ECL) for all debt instruments not measured at FVPL and for exposures arising from loan commitments and financial guarantee contracts. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate and adjusted for forward-looking estimates, as appropriate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The measurement of ECL reflects: (a) an unbiased probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) 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.

ECL is a function of the probability of default, loss given default and exposure of default, with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The probability of default represents the likelihood that the borrower will default either over the next 12 months or over the remaining life of the asset. Loss given default represents the Bank's expectation of the extent of loss on a default exposure. Exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

The Bank measures loss allowances at an amount equal to the 12-month ECL for the following:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Loans to customers and other financial instruments on which credit risk has not increased significantly since initial recognition.

The Bank considers its investment in debt securities to have a low credit risk when its credit risk rating is equivalent to "investment grade."

The 12-month ECL is the portion of ECL that results from default events on financial assets that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is determined, are referred to as "Stage 1 financial assets".

However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. Lifetime ECL is the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is determined but which are not credit-impaired, are referred to as "Stage 2 financial assets."

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial asset as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. The Bank also considers downgrade of credit risk rating or changes in the computed probabilities of default to determine whether significant increase in credit risk has occurred subsequent to initial recognition date. As a backstop indicator, the Bank considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. In subsequent reporting years, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, then the Bank reverts them to Stage 1.

At each reporting date, the Bank assesses whether financial assets carried at amortized cost are credit-impaired (referred to as "Stage 3 financial assets"). A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. ECL for credit-impaired financial assets is based on the difference between the gross carrying amount and present value of estimated future cash flows. The Bank transfers credit exposures from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Such exposures should exhibit both the quantitative and qualitative indicators of probable collection prior to the transfer. The quantitative indicator is characterized by payments made within an observation period. The qualitative indicator pertains to the results of assessment of the borrower's financial capacity. As a general rule, full collection is probable when payments of interest and/or principal are received for at least six months.

Financial assets at amortized cost are written off when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Derecognition. A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;
- the Bank retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Bank has transferred its right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Bank's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Bank could be required to repay.

Financial Liabilities

Classification. The Bank classifies its financial liabilities at initial recognition under the following categories: (a) financial liabilities at amortized cost and (b) financial liabilities at FVPL.

The Bank does not have financial liabilities at FVPL as at December 31, 2023 and 2022.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

This category includes deposit liabilities, accrued interest and other expenses, manager's check, lease liabilities and other liabilities (excluding statutory liabilities, provision for impairment losses on commitments and contingent assets and retirement liability).

Classification of Financial Instrument between Liability and Equity. A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Bank does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Derecognition. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Bank could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in profit or loss.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

Offsetting of Financial Assets and Liabilities
Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

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

Securities purchased under agreements to resell are recorded as loans and receivables to the BSP, other banks or customers and are included in the statements of financial position. Securities lent to counterparties are also retained in the financial statements.

Property and Equipment
Land is stated at cost less any impairment in value. Depreciable properties are stated at cost less accumulated depreciation, amortization and any impairment in value.

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

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

Depreciation and amortization are calculated using the straight-line method to allocate cost or residual values over the estimated useful lives as follows:

	Number of Years
Buildings and improvements	25
Furniture, fixtures and equipment	5
Transportation equipment	5
Right-of-use (ROU) assets	3 to 10 or the related lease term, whichever is shorter

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

An item of the property 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 year the item is derecognized.

Fully depreciated assets are retained in the accounts until these are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

Investment Properties

Investment properties consist of foreclosed properties and properties held for capital appreciation that are not occupied by the Bank.

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired, unless the fair value of such an asset cannot be measured, in which case the investment property acquired is measured at carrying amount of the asset given up. Foreclosed properties are recognized as "Investment properties" upon: (a) entry of judgment in case of judicial foreclosure; (b) execution of Certificate of Sale in case of extra-judicial foreclosure; or (c) notarization of the "Deed of Dacion" in case of dation in payment (dacion en pago). Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation, and any impairment in value. Land is carried at cost less any impairment losses.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to profit or loss in the year in which the costs are incurred.

Depreciation is calculated on a straight-line basis using the remaining useful life from the time of acquisition of the investment properties but not to exceed 10 years for buildings, except if significant renovation is made thereon and the estimated useful life of the building has been extended.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with view to sale.

Investment properties are derecognized upon disposal or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gains or losses arising on derecognition of investment properties (calculated as the difference between the net disposal proceeds and the carrying amount of the item) are recognized in profit or loss in the year of retirement or disposal.

Computer Software

Computer software is measured initially at cost. Subsequently, computer software is measured at cost less accumulated amortization and any impairment losses. Internally-generated computer software is not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred.

Computer software is amortized using straight-line method over the useful life of five years and assessed for impairment whenever there is an indication that the computer software may be impaired.

The amortization period and method used for computer software are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization on computer software is recognized in profit or loss.

Computer software 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 computer software 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 year the item is derecognized.

Impairment of Nonfinancial Assets

At each reporting date, the Bank assesses whether there is any indication of impairment on nonfinancial assets. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating units) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value lest cost to sell, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation and amortization are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

Capital Stock. Capital stock is measured at par value for all shares issued. When the shares are sold at premium, the difference between the proceeds and the par value is credited to the additional paid-in capital in equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Reserves. Reserves pertain to a portion of the Bank's income from trust operations set up on a yearly basis in compliance with the BSP regulations. Reserves also include reserve for contingencies and self-insurance.

Retained Earnings. Retained earnings include cumulative balance of net income or loss, effects of the changes in accounting policy and other capital adjustments.

Dividend Declaration. Dividends are recognized as a liability and deducted from equity when approved by the BOD of the Bank. Dividends for the year that are approved after year end are dealt with as an event after the reporting date.

Other Comprehensive Income (Loss)
Other comprehensive income (loss) comprises items of income and expenses (including items previously presented under equity) that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income (loss), which is presented as "Other equity reserves," pertains to cumulative unrealized gains (losses) on fair value changes of investment securities, cumulative translation adjustment and cumulative remeasurement gains on retirement liability.

Revenue Recognition
Revenue from contracts with customers is recognized when the customer obtains control of the services at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be measured reliably.

The Bank also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Bank has assessed that it acts as a principal in all of its revenue sources, except for revenue from trust operations.

The following specific recognition criteria must also be met before revenue is recognized:

Interest Income. For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate. 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 rate, transaction costs and all other premiums or discounts.

Interest income already received by the Bank but not yet earned is reported as "Unearned interest" in the liability section of the statement of financial position.

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, the Bank calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Service Fees and Commissions. Service charges and penalties, which are presented as part of "Service charges and commissions" in profit or loss, are recognized only upon collection or accrued when there is a reasonable degree of certainty as to its collectability. Commissions arising from providing transaction services are recognized upon completion of the transaction.

Rent Income. Rent income arising on leased properties is accounted for on a straight-line basis of accounting over the lease terms of ongoing leases and is recognized in profit or loss as part of "Other Income."

Dividend Income. Dividend income is recognized when the Bank's right to receive payment is established.

Other Income. Revenue is recognized when earned.

Costs and Expense Recognition
Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized upon receipt of goods, utilization of services or when the costs and expenses are incurred.

Interest Expense. Interest expense is recognized in profit or loss using the effective interest rate of the financial liabilities to which these relate.

Operating Expenses. Operating expenses constitute costs which arise in the normal business operations and are recognized when incurred.

Leases
The Bank considers whether a contract contains a lease at the inception of a contract. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank as a Lessee. At commencement date of the lease, the Bank recognizes right of use (ROU) assets and corresponding lease liabilities, except for short-term leases (defined as leases with a lease term of 12 months or less).

For short-term leases, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease liabilities are initially measured at the present value of the unpaid lease payments, discounted using the interest rate implicit in the lease (if readily available) or the Bank’s incremental borrowing rate. Incremental borrowing rate is the rate of interest that the Bank would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the ROU assets in a similar economic environment.

ROU assets are initially measured at cost, which consist of the initial measurement of the lease liabilities, any initial direct costs incurred, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date.

Subsequent to initial measurement, the ROU assets are amortized on a straight-line basis using the expected useful life of three to 10 years or the lease term, whichever is shorter. The ROU assets are assessed for impairment when such indicators exist.

ROU assets are presented as part of property and equipment.

Lease payments included in the measurement of the lease liabilities consists of fixed payments and, if any, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, lease liabilities will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in the fixed payments. When the lease liabilities are remeasured, the corresponding adjustment is reflected in the ROU assets, or profit and loss if the ROU assets are already reduced to zero.

The Bank as a Lessor. Leases where the Bank retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which these are earned.

Employee Benefits

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

A provision is recognized for the amount expected to be paid under short-term cash bonus, short-term compensated absences or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be measured reliably.

Retirement Benefits. The Bank operates a funded, defined contribution (DC) plan covering its regular employees wherein the Bank pays a fixed contribution into a separate entity known as the trustee, which administers, manages and invests the funds. The Bank is covered under Republic Act (RA) No. 7641, *Retirement Law*, which provides for its qualified employees a defined benefit (DB) minimum guarantee. The DB 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.

The Bank accounts for its retirement obligation as the higher of the DB obligation relating to the minimum guarantee and the DC plan. For the DB minimum guarantee plan, the retirement liability is determined based on the present value of the excess of the projected DB obligation over the projected DC obligation at the end of the reporting year. The present value of the retirement liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. The DB obligation is calculated annually by a qualified independent actuary using the projected unit credit method.

Retirement benefit costs reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. The Bank recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and non-routine settlements, and net interest expense or income in profit or loss. Net interest expense or income is calculated by applying the discount rate to the net DB liability or asset. Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Bank recognizes restructuring-related costs.

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

Remeasurements of the net DB liability, which comprise actuarial gains and losses, the return on unallocated plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. Remeasurements are not reclassified to profit or loss in subsequent years.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Bank recognizes gains or losses on the settlement of a DB plan when the settlement occurs.

<u>Income Taxes</u>
The tax expense for the year comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Current Tax. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Tax. Deferred tax is provided using the liability method on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences with certain exceptions. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of the minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are re-assessed at the end of each reporting year and are recognized to the extent that it has become probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates applicable to the year when the asset is realized or the liability is settled, based on tax rates (tax base) and regulations that have been enacted or substantively enacted at the reporting date.

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

Foreign Currency Transactions

RBU. Transactions in currencies other than Philippine Peso are recorded at the rate of exchange prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the reporting date. Foreign exchange gains or losses are recognized in profit or loss in the year in which these are incurred.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

FCDU. As at the reporting date, the assets and liabilities of the FCDU are translated into the Bank's functional and presentation currency using the BSP closing rate, and its income and expenses are translated at the BSP weighted average rate for the year. Exchange differences arising from translation of foreign currency are recognized as other comprehensive income under "Cumulative translation adjustment". Upon disposal of the FCDU or actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized as "Cumulative translation adjustment" in other comprehensive income is reclassified to profit or loss.

Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

Related party transactions are considered material and/or significant if (i) these transactions amount to 10% or higher of the Bank's total assets or, (ii) there are several transactions or a series of transactions over a 12-month period with the same related party amounting to 10% or higher of the Bank's total assets. Details of transactions entered into by the Bank with related parties are reviewed by the BOD in accordance with the Bank's related party transactions policies.

Earnings per Share (EPS)

The Bank presents basic and diluted EPS data for its common shares. Basic EPS is computed by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential common shares, if any.

Fiduciary Activities

Assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, are excluded from the financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

Segment Reporting

Operating segments are components of the Bank: (a) that engage in business activities from which they may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the Bank); (b) whose operating results are regularly reviewed by the Bank's senior management, its chief operating decision maker, to make decisions about resources to be allocated to the segment and assess its performance; and (c) for which discrete financial information is available.

For purposes of management reporting, the Bank's operating businesses are organized and managed separately based on the nature of the business segment, with each business representing a strategic business segment.

Provisions
Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where the Bank expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statements of income net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

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

Events after the Reporting Year
The Bank identifies events after the end of the reporting year as those events, both favorable and unfavorable, that occur between the end of the reporting year and the date when the financial statements are authorized for issue. The financial statements of the Bank are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting year. Non-adjusting events after the end of the reporting year are disclosed in the notes to financial statements, when material.

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3. **Significant Judgment, Accounting Estimates and Assumptions**

The preparation of the financial statements requires management to exercise judgment, make estimates, and use assumptions that affect amounts of assets, liabilities, income and expenses reported in the financial statements and related disclosures. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the financial statements. While management believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

Judgments

In the process of applying the Bank's accounting policies, management has made the following judgment, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

Determining the Classification of Financial Assets. Classification of financial assets depends on the results of the business model test and sole payment of principal and interest (SPPI) test performed by the Bank.

The Bank exercises judgment in determining the business model to be used in managing its financial instruments to achieve their business objectives.

Below are the factors considered by the Bank in its business model assessment:

- Specific business objectives in holding the financial assets.
- Whether income that can be generated from the financial assets can cover the cost of deposits.
- Policies in managing the risks of the financial assets.
- Expected frequency, value and timing of sales.
- Key performance indicators of the financial assets.

The Bank also determines whether the contractual terms of debt securities classified and measured as financial assets at amortized cost give rise to specified dates to cash flows that are SPPI, with interest representing time value of money and credit risk associated with the outstanding principal amount. Any other contractual term that changes the timing or amount of cash flows does not meet the SPPI test.

Assessing the Existence of Significant Influence over an Investee. An investor is generally considered to have significant influence over an investee, when the investor holds, directly or indirectly, 20% or more of the voting power of the investee. Conversely, if the entity holds less than 20% of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

As at December 31, 2022, the Bank held 9.68% ownership over the outstanding shares of Philippine Bank of Communications (PBCOM), which granted the former the capability to elect a seat in the BOD of PBCOM. The Bank did not exercise such right in 2022. Accordingly, existence of significant influence cannot be demonstrated.

The investment in PBCOM amounting to ₱747,096 as at December 31, 2022 is classified as financial asset at FVOCI (see Note 8).

On July 7, 2023, the Bank sold its investment in PBCOM.

Determining the Functional Currency. The Bank uses its judgment to determine the functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

- The currency that mainly influences sales price for financial instruments and services or the currency in which sales prices for its financial instruments and services are denominated and settled.
- The currency in which funds from financing activities are generated.
- The currency in which receipts from operating activities are usually retained.

Based on the foregoing and the economic substance of the underlying circumstances relevant to the Bank, the functional currency of the Bank has been determined to be the Philippine Peso, which is the currency of the primary economic environment in which the Bank operates.

Assessing the Transfer of Control and Risk and Rewards on Sale of Investment in Quoted Equity. As mandated by the BSP, on July 7, 2023, the Bank sold its investment in PBCOM through the execution of Contract of Purchase and Sale (CPS) to two buyers. The CPS included a clause that the Deed of Absolute Sale (DOAS) will be executed only upon full payment of consideration, which will be made at the end of the five-year term.

The Bank has assessed that the risk and rewards over the investment in PBCOM have been transferred to the buyers as manifested through the following as stipulated in the CPS, even prior to the full payment of the consideration.

- Transfer of the right to receive cash flows in the form of dividends to the buyers.
- Transfer of market risk (i.e., volatility of fair value changes to the buyers.
- Right to sell/transfer the shares to another party by the buyers.

The receivable from the sale of investments in PBCOM shares is subject to credit risk. Accordingly, management has assessed and recognized provision for credit and impairment loss in 2023 (see Note 13).

The details on the sale of investment in PBCOM are discussed in Note 8.

Determining the Classification of Lease Arrangements and Appropriate Lease Term and Discount Rates. The Bank, as a lessee, has existing lease agreements with related parties and third parties for its branches.

The Bank recognizes ROU assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the Bank's incremental borrowing rate, except for its short-term leases.

The Bank has exercised significant judgment in determining the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or in any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Significant management judgment was likewise exercised by the Bank in determining the discount rate, whether implicit rate, if readily available or incremental rate, to be used in calculating the present value of ROU assets and lease liabilities. The discount rate ranging from 2.44% to 10.00% and 1.86% to 7.08% in 2023 and 2022, respectively, are incremental borrowing rates based on the Bloomberg Valuation Service (BVAL) rates adjusted by credit spread of the Bank.

Reassessments are made on a continuing basis whether changes should be reflected in the amount of lease liabilities due to circumstances affecting lease payments and discount rates.

The Bank recognizes rent expense for leases considered short-term or with less than 12 months term. Further details are discussed in Note 24.

Determining the Operating Segments. Determination of operating segments is based on the information about components of the Bank that management uses to make decisions about the operating matters. Operating segments use internal reports that are regularly reviewed by the Bank's chief operating decision maker in order to allocate resources to the segment and assess its performance.

The Bank determined that its operating segments are organized and managed separately based on the nature of the business segment, with each business representing a strategic business segment (see Note 29).

Evaluating Contingencies. The Bank is currently involved in legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Bank's defense in these matters and is based upon an analysis of potential results. Management does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

Information about the contingencies and commitments of the Bank are included in Note 28, *Commitments and Contingent Assets and Liabilities.*

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

Determining the Fair Values of Financial Instruments. Certain financial assets and liabilities which are carried at fair value and whose fair values are disclosed, requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Bank utilized different valuation methodologies. Any changes in fair value of these financial assets would affect profit and loss and equity.

When the fair values of financial assets and liabilities recognized or disclosed in the financial statements cannot be derived from the active market, the fair values are determined using internal valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The fair values of the Bank's financial instruments are disclosed in Note 4.

Estimating the Credit and Impairment Losses on Financial Assets. Credit and impairment losses on financial assets are based on ECL. In assessing the ECL, the Bank uses historical credit loss experience adjusted for forward-looking factors, as appropriate.

The Bank measures impairment loss based on the 12-month ECL for the following:

- Debt securities that are determined to have credit risk rating equivalent to "investment grade", and thus, a low credit risk at the reporting date.
- Receivables from customers and other financial instruments on which credit risk has not increased significantly since initial recognition.

The Bank measures impairment loss based on the lifetime ECL for receivables from customers for which credit risk has increased significantly since initial recognition, or when:

- Borrower or a group of borrowers are experiencing financial difficulty;
- Payment delinquency in principal and/or interest payments (missed payments);
- Financial or management reorganization which may impact borrower's ability to meet its contractual obligations with the Bank;
- There is adverse information gathered from credit bureau or industry sources;
- Borrower defaulted in his account/s with other lenders
- Adverse changes in business, financial or economic conditions that are expected to impact the borrower's ability to pay obligations;
- Significant change in the value of the collateral or quality of third party guarantees which are expected to reduce borrower's economic incentive to pay their obligations;
- Change in the performance and behavior of the borrower;
- Borrower has missed payment for loan obligations between 16 and 90 days from due date or based on the approved curing period of the Bank;
- Restructured account is in current status but has not yet established track record of six months' consecutive payments from restructuring date

In estimating ECL, the Bank estimates the amounts and timing of future cash flows and collateral values and assesses whether there is a significant increase in credit risk. Below are the components considered in the calculation of ECL.

- Statistical models which are primarily based on regression analysis.
- Internal Credit Risk Rating (ICRR) and certain qualitative factors in determining whether there has been a significant increase in credit risk to determine when to measure lifetime credit losses.
- Latest fair values of collaterals and historical recovery rates of foreclosed assets for loss given default calculations.
- Segmentation of financial assets for collective assessment of ECL.

Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or the borrower.
- A breach of contract, such as a default or past due event.
- The lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower concessions that the lenders would not otherwise consider.
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.
- The disappearance of an active market for that financial asset because of financial difficulties.
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Financial Assets at FVOCI - Debt Securities
The Bank recognized provision (reversal of allowance) for credit and impairment losses on debt securities classified as financial assets at FVOCI amounting to (₱5,828), (₱90,939) and ₱81,007 in 2023, 2022 and 2021, respectively (see Note 13).

Details of debt securities at FVOCI as at December 31 are as follows:

	Note	**2023**	2022
Gross amount		**₱19,223,011**	₱20,786,753
Allowance for impairment losses	13	**(18,524)**	(24,352)
Carrying amount	8	**₱19,204,487**	₱20,762,401

Financial Assets at Amortized Cost
The Bank recognized provision (reversal of allowance) for credit and impairment losses on government securities and corporate bonds classified under financial assets at amortized cost amounting to (₱4,074), (₱66,454) and ₱60,100 in 2023, 2022 and 2021, respectively (see Note 13).

Details of financial assets at amortized cost as at December 31 are as follows:

	Note	**2023**	2022
Gross amount		**₱108,009,172**	₱99,728,773
Allowance for impairment losses	13	**(14,399)**	(18,582)
Carrying amount	8	**₱107,994,773**	₱99,710,191

<u>Loans and Receivables</u>
A reversal of allowance for credit and impairment losses amounting to ₱821,496 was recognized in 2023. In 2021, the net provision for credit and impairment losses on loans and receivables amounted to ₱113,322. Allowance for credit and impairment losses amounting to ₱120,800 was derecognized in 2022 (see Note 13).

Details of loans and receivables as at December 31 are as follows:

	Note	**2023**	2022
Gross amount	9	**₱29,843,665**	₱25,206,073
Allowance for credit and impairment losses	13	**(3,310,132)**	(4,131,628)
Carrying amount	9	**₱26,533,533**	₱21,074,445

<u>Other Financial Assets at Amortized Cost</u>
For other financial assets at amortized cost such as cash and other cash items, due from BSP and other banks, securities purchased under resale agreement, refundable deposits, other investments, and RCOCI (included under “Other assets” account), no allowance for credit and impairment losses was recognized because these are placements with reputable counterparties that possess good ratings.

The carrying amount of the other financial assets at amortized cost are discussed in Notes 6, 7 and 12.

<u>Commitments and Contingent Assets</u>
The Bank has recognized allowance for impairment losses on commitments and contingent assets amounting to ₱14,257 as at December 31, 2023 and 2022 (see Note 13). These pertain to commitments and contingent assets which are not reflected in the accompanying financial statements.

Determining Classification between Investment Properties and Owner-occupied Properties. The Bank determines whether a property qualifies as investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the ordinary course of business.

Some properties consist of a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the ordinary course of business or for administrative purposes. If these portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the ordinary course of business or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making judgment.

The Bank classifies all properties which have a portion that is earning rentals and another portion which are used in the ordinary course of business or used in administrative purposes as owner-occupied properties based on the criterion above. In this case, such properties were included under the "Property and equipment" account.

Estimating the Useful Lives of Depreciable Property and Equipment (including ROU Assets), and Investment Properties, and Computer Software. The Bank estimates the useful lives of depreciable property and equipment and investment properties, and computer software, and for purposes of computing depreciation and amortization based on the year over which the assets are expected to be available for use.

The estimated useful lives are reviewed annually and changed if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. However, it is possible that future results of operations could be materially affected by changes in factors mentioned in the foregoing. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment, investment properties, and computer software would increase the recorded expenses and decrease assets.

There was no change in the estimated useful lives of the property and equipment and investment properties, and computer software in 2023 and 2022. The carrying amounts of depreciable assets are discussed in Notes 10, 11, and 12.

Assessing the Impairment on Nonfinancial Assets. The Bank assesses impairment on property and equipment (including ROU assets), investment properties, and computer software whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results.
- Significant changes in the manner of use of the acquired assets or the strategy for overall business.
- Significant negative industry or economic trends.

There is no indicator that the nonfinancial assets, except for investment properties, are impaired. Accordingly, no provision for impairment losses on property and equipment and computer software was recognized 2023, 2022 and 2021.

In 2023 and 2022, the Bank recognized provision for impairment losses on investment properties amounting to ₱19,380 and ₱40,689, respectively. No provision for impairment losses was recognized in 2021 (see Note 11).

The carrying amounts of the nonfinancial assets are discussed in Notes 10, 11, and 12.

Determining the Retirement Liability. The present value of the excess of the projected DB minimum guarantee over the projected DC obligation at the end of the reporting period depends on a number of factors that are determined on an actuarial basis. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of retirement obligations.

The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Bank considers the interest rates of government securities 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 retirement obligation.

Other key assumptions for retirement obligations are based in part on current market conditions. Additional information is disclosed in Note 21.

Assessing the Realizability of Deferred Tax Assets. The Bank reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Any deferred tax asset will be re-measured if it might result in derecognition when the expected tax law to be enacted has a possible risk on the realization. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

Management assessed that it is not probable that sufficient future taxable profit will be available to allow all or part of the unrecognized deferred tax assets to be utilized.

The recognized and unrecognized deferred tax assets are further discussed in Note 26.

4. Financial Risk Management

The Bank has exposure to the following major risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

Risk Management Framework

The BOD is responsible for establishing and maintaining a sound risk management framework. This includes understanding the nature and level of risks assumed by the bank. The overall management of risks lies on the business strategy as directed by the BOD through approved policies in risk management.

The Bank identifies the major risks and said major risks are classified between quantifiable risks and non-quantifiable risks. Quantifiable risks include Liquidity Risk, Market Risk and Credit Risk, while Non-Quantifiable risks include Operational Risk and other related risks where impact is considered.

Through the direction of the BOD, the following comprise the risk management structure of the Bank:

Executive Committee. The Executive Committee plays the crucial role of analyzing, evaluating, and approving product attributes such as: market, liquidity and credit risk; operations risk; control and compliance; audit, legal and regulatory; and system and technology issues for new activities/ products.

Senior Management. The Senior Management is responsible for the implementation and ensure compliance of department personnel to Risk Management policies and oversee day-to-day operations within the bank. They are tasked to make recommendations and endorse reports from departments to the BOD.

Risk Oversight Committee (ROC). The ROC is responsible for the creation and oversight of the Bank's corporate risk policy. Along with the Risk-Taking Party and Risk Management Department (RMD), they are tasked to identify and analyze the risks faced by the Bank, to set and recommend to the BOD the quantified reports and assessment of risks exposures, and to ensure that each business unit continuously monitors the adequacy and soundness of policies, assumptions and practices.

Asset and Liability Committee (ALCO). The ALCO ensures that at all times the Bank maintains adequate liquidity, sufficient capital and appropriate funding to meet all business requirements and complies with all regulatory requirements.

Credit and Loan Review Committee (CLRC). The CLRC is primarily responsible for credit risk management of the Bank. It establishes the standards for credit analysis, define credit risk measurements, establish internal risk ratings and review the credit risk infrastructure's ability to support the Bank's risk policies.

Risk Management Department (RMD). The RMD is an in independent business function that is tasked to identify, measure, mitigate, monitor and report risks from the Bank's trading, position-taking, lending, borrowing, and other transactional activities.

Audit Committee (AC). The AC is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management system in place in relation to the risks faced by the Bank. The Bank's AC is assisted in its oversight role by Internal Audit. Internal Audit (IA) undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

<u>Credit Risk</u>

The Bank's credit risk arises from lending, trade finance, and investment activities. The credit risk exposure of the Bank is mainly from the Account Management Department business lines. The portfolio comprises short-term business loans mainly for working capital requirements in credit lines, international and domestic trade finance facilities, and receivables financing. The credit terms are matched to address the borrowers' funding gap. The Bank also offers medium-term to long-term loans for capital expenditures.

The credit underwriting for commercial loans is based on the borrower's repayment capacity established through cash flow assessments, management capability, and industry projections. Although the Bank holds collateral on most of its loans and receivables in the form of mortgage interest over real property and deposits of the borrowers with the Bank, the Bank institutes risk-based lending standards over collateral-based lending as one of the risk mitigation techniques.

Credit Risk Management

Measurement of Credit Risk. In measuring credit risk at a counterparty level, the Bank mainly relies on its sound lending philosophy and considers three components: (i) the probability of default by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development; and (iii) the likely recovery ratio on the defaulted obligations.

The Bank holds collateral on most of its loans and receivables in the form of mortgage interest over real property and deposits of the borrowers with the Bank. Estimates of fair value of the property are based on the value of collateral assessed at the time of borrowing, and are updated periodically or when a loan is individually assessed as impaired.

Credit risk exposure to financial assets is managed through detailed risk assessment of every credit exposure associated with a specific counterparty. The Bank also sets and frequently reviews compliance to transaction and counterparty limits, as well as lending authorities delegated to credit officers, to ensure that the Bank's portfolio or individual account credit risk is kept to acceptable levels.

Due from BSP and Other Banks and Securities Purchased Under Resale Agreement. The credit risk for due from BSP and other banks and securities purchased under resale agreement with the BSP is not considered significant because the counterparties are the BSP, which is considered risk free, and reputable banks with high quality external credit ratings.

As at December 31, 2023 and 2022, due from BSP and other banks and securities purchased under resale agreement are classified as "high grade" under Stage 1 financial assets.

Investments in Debt Securities. Investments in debt securities pertain to a portfolio of government securities and corporate bonds. ECL for these investments is determined using the probability of default provided in Bloomberg. Investments in debt securities are classified as "high grade" under Stage 1 financial assets.

Loans and Receivables. In respect of loans to borrowers, the Bank is not exposed to any significant credit risk to any single counterparty. Credit risk is determined by the Bank after considering historical, forward-looking information and credit enhancements on collaterals. The credit risk for loans and receivables are considered minimal since loans are fully covered by collaterals.

The amount and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. Guidelines are established and implemented regarding the acceptability of types of collateral valuation and parameters.

The Bank's policy is to dispose of foreclosed properties in the most expeditious manner possible. Sale is facilitated by offering incentives to the Bank's accredited brokers and through evaluating and offering credit terms, which includes reduced rates for down payment as compared to prevailing market rates.

Credit-related Commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Standby letters of credit carry the same risk as loans. Documentary and commercial letters of credit - which are written undertaking by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Maximum Exposure to Credit Risk before Collaterals Held or Other Credit Enhancements
Credit risk exposures relating to significant on-balance sheet financial assets are as follows:

	Note	2023	2022
Due from BSP	6	**₱11,579,430**	₱17,194,897
Due from other banks	6	**1,169,066**	1,196,557
Securities purchased under resale agreement	7	**2,336,535**	1,381,191
Investment securities*	8	**127,199,260**	120,472,592
Loans and receivables	9	**26,533,533**	21,074,445
		₱168,817,824	₱161,319,682

**Excluding equity securities*

The above table represents the maximum credit exposure of the Bank without taking into account any collateral held or other credit enhancements. The exposures set out above are based on net carrying amounts as reported in the statements of financial position.

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

	2023	2022
Trust department accounts	**₱1,109,979**	₱1,085,609
Unused commercial letters of credit	**130,207**	214,140
Outward bills for collection	**41,166**	32,052
Late deposits	**17,739**	22,958
Inward bills for collection	**2,327**	12,459
Items held as collateral	**5**	5
	₱1,301,423	₱1,367,223

For loans receivable from customers, the credit quality is generally monitored using the Bank's internal rating system. It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates management to focus on major potential risk and the comparison of credit exposures across all lines of business, demographics and products. The rating system has two parts, namely: the borrower's risk rating and the facility risk rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information to provide the main inputs for the measurement of credit risk.

The Bank uses ICRR to classify the credit quality of its receivable portfolio. This is being upgraded, as necessary, to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment.

Descriptions and classifications of the loan grades used by the Bank for receivables from customers are as follows:

Risk Rating	Classification	Credit Quality
1	Excellent	High Grade
2	Strong	High Grade
3	Good	High Grade
4	Satisfactory	Standard Grade
5	Acceptable	Standard Grade
6	Watchlist	Standard Grade
7	Special Mention	Impaired
8	Substandard	Impaired
9	Doubtful	Impaired
10	Loss	Impaired

Risk Rating 1 – Excellent. The borrower has no history of delinquency and is paying as agreed.

A borrower in this category is highly liquid, can be sustained and has a strong repayment capacity. The financial condition of the borrower is good, with above industry average financial indicators.

The borrower has no existing disruptions and/or future disruptions are unlikely. The borrower is a market leader with above average profit, not dependent on a few customers and suppliers, and stable with good probability for growth.

Under this category, the borrower's management ability demonstrated competence under the current business model, with well thought-out corporate strategy and sensible and efficient management structure.

Risk Rating 2 – Strong. The borrower has no history of delinquency and is paying as agreed.

A borrower in this category has strong operating trends and liquidity is adequate. The borrower has no existing disruptions and/or future disruptions are unlikely. The borrower's management ability demonstrated competence under the current business model.

Borrower has a strong market and financial position with a history of successful performance. The overall debt service capacity as measured by cash flow to total debt service is very strong; the critical balance sheet ratios are within the industry average.

Risk Rating 3 – Good. The borrower is paying as agreed and no history of default in the last 12 months.

The borrower's borrowing base supports the line of credit. The borrower has no existing disruptions and/or future disruptions are unlikely. The borrower's management ability demonstrated competence under the current business model.

A borrower in this category usually exhibits characteristics of some degree of stability and substance and the probability of default is still quite low.

Risk Rating 4 – Satisfactory. The borrower under this category is paying as agreed and has adequate to marginal repayment capacity. There are disruptions identified from external factors but the borrower has or will likely overcome.

Risk Rating 5 – Acceptable. Borrower's account status is current. However, it has marginal liquidity. There is a declining trend in operations of the borrower.

This category represents borrowers who may still be able to withstand normal business cycles. However, any prolonged unfavorable economic and/or market condition would create an immediate deterioration beyond acceptable level.

Risk Rating 6 – Watchlist. Borrower's account status is current. However, the borrower is incurring delays of up to 30 to 60 days, but with probability that it will be brought back to current. Adverse business, financial, or economic conditions will likely impair the borrower's capacity or willingness to meet its financial requirements.

Operating performance and financial strength may be marginal and it is uncertain whether the borrower can attract alternative sources of financing. Typically, the borrower will find it very hard to cope with any significant economic downturn and a default in such a case is more than a possibility.

Risk Rating 7 – Special Mention. There is an evidence of weakness in financial condition or credit-worthiness for borrowers under this category.

A borrower in this category is characterized by some probability of default, manifested by some or all of the following:

- Evidence of weakness in the borrower's financial condition or creditworthiness;
- Unacceptable risk generated by potential or emerging weaknesses as far as asset protection and/or cash flow is concerned. Concerns center on the potential for a continuation of unfavorable economic, market, or borrower specific conditions or trends, which may affect future debt service capacity;
- Indications that the borrower's ability or willingness to service debt are in doubt;
- Necessity or strong likelihood for rescheduling of the loan; and
- Decline in values of, or adverse developments on, collaterals securing the loan.

These loans have potential weaknesses that deserve close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan, and thus increase credit risk to the Bank. Minimum provisioning on the amount at risk is 5%. Some of their basic characteristics are:

- Loans with missing collateral folders and documents including but not limited to title papers, mortgage instruments, and promissory notes.
- Loans to firms not supported by Board Resolutions authorizing the borrowing.
- Loans with no credit investigation report.
- Loans with no latest income tax returns and/or latest audited financial statements.
- Loans whose repayment may be endangered by economic or market conditions.
- Loans to borrowers whose properties securing the loan (previously well secured by collateral) have declined in value with other adverse information.
- Loans past due for more than 30 days up to 90 days.

A downgrade of the account to this rating (7 – Poor / Special Mention) becomes necessary when:

- The company is still a 'going concern', still performing and non-defaulting.
- Action and/or restructuring is imminent.
- A restructuring is perceived to be without any loss perspective.

Risk Rating 8 – Substandard. The borrower is currently highly vulnerable and is in a state of default. Substandard loans are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable or unsatisfactory characteristics. The debt burden for borrowers under this category is too heavy, with either weak or negative cashflows. These well-defined adverse elements exist in such loans where there is a possibility of future loss to the institution unless given closer supervision. Such adverse elements or political nature, or b) significant weakness in collateral. Minimum provisioning on the amount at risk is 25%. Basic characteristics are:

- Past due and circumstances are such that there is an imminent possibility of foreclosure or acquisition of the collateral because of failure of all collection efforts.
- Past due loans to borrowers whose properties securing the loan have declined in value materially or have been found with defects as to ownership or other adverse information.
- Current loans to borrowers whose financial statements audited by SEC-accredited external auditors show impaired/negative net worth except for startup firms which should be elevated on a case-to-case basis.
- Renewed loans of borrowers with declining trend in operations, illiquidity, or increasing leverage trend in the borrower's financial statements without at least 20% repayment of the principal before renewal or extension.
- Current loans or borrowers with unfavorable results of operations for two consecutive years or with impaired/negative net worth except for startup firms which should be evaluated on a case-to-case basis.
- Loans under litigation.
- Loans past due for more than 90 days.

Risk Rating 9 – Doubtful. Borrower is in a state of default, where any of the following factors are present:

- Account is already in "non-performing loan" (NPL) status;
- Any portion of any principal and/or interest repayment is in arrears for more than 90 days; and
- The borrower is unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service is doubtful.
- Overdue loans wherein the prospects of full application of the value of the collateral to the loan is impaired due to material declines in market values of the collateral, or the collateral is subject of adverse claim.

While the extent of probability of loss cannot be exactly ascertained at this point, there may be certain pending important and reasonable factors from the borrowers' side that can result in the strengthening of the assets of the borrower, which will thus work to the advantage of the lending bank. These pending assets-strengthening factors include merger, acquisition, additional capital infusion and additional cover.

Generally, a provision of at least 50% shall be made for the partially secured portion of the loan principal.

Risk Rating 10 – Loss. Borrower is in a state of default and the prospect for re-establishment of creditworthiness and debt service is remote.

This category also applies where the Bank will take or has taken title to the assets of the borrower and is preparing a foreclosure and/or repossession. Provisioning will be at 100% of that portion of the principal which is not adequately covered by collateral.

Significant Increase in Credit Risk. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. A significant increase in credit risk can be measured by comparing the probability of default of the counterparty as at reporting date from probability of default on the date of initial recognition.

Other indications may include, among others, potential credit weaknesses based on current and/or forward-looking information that warrant management's close attention and adverse or foreseen adverse economic or market conditions that may affect the counterparty's ability to meet the scheduled repayments in the future.

Definition of Default. The Bank considers default to have occurred when: (a) the obligor is past due for more than 90 days on any material credit obligation to the Bank; or (b) the obligor is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing collateral, as applicable. The Bank no longer considers an instrument to be in default when it no longer meets any of the default criteria and has exhibited satisfactory and acceptable track record for six consecutive payment periods, subject to applicable rules and regulations of the BSP.

Credit Quality per Classification of Financial Assets

The Bank has developed and continually reviews and calibrates its internal risk rating system for large exposures aimed at uniformly assessing its credit portfolio in terms of risk profile.

The following table provides the analysis of credit quality of the of the Bank's financial assets (gross of allowance for credit and impairment losses) classified as Stage 1, 2 or 3 financial assets.

	2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Financial assets at amortized cost				
Due from BSP				
High grade	**₱11,579,430**	**₱–**	**₱–**	**₱11,579,430**
Due from other banks				
High grade	**1,169,066**	**–**	**–**	**1,169,066**
Securities purchased under resale agreement				
High grade	**2,336,535**	**–**	**–**	**2,336,535**
Government securities				
High grade	**108,009,172**	**–**	**–**	**108,009,172**
Loans receivable from customers				
Corporate:				
High grade	**12,092,134**	**–**	**–**	**12,092,134**
Standard grade	**7,809,361**	**469,027**	**908,434**	**9,186,822**
Past due	**–**	**–**	**2,198,034**	**2,198,034**
Individual:				
High grade	**1,489,912**	**–**	**–**	**1,489,912**
Standard grade	**1,849,025**	**67,609**	**316,905**	**2,233,539**
Past due	**–**	**–**	**761,464**	**761,464**

(Forward)

	2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Receivable from sale of investment in government equity securities	**₱–**	**₱–**	**₱1,243,629**	**₱1,243,629**
Accrued interest				
High grade	**558,490**	**1,352**	**21,648**	**581,490**
Sales contracts receivables				
High grade	**33,663**	**–**	**–**	**33,663**
Other receivables				
High grade	**22,978**	**–**	**–**	**22,978**
Other assets*				
High grade	**44,711**	**–**	**–**	**44,711**
Financial assets at FVOCI				
Government securities				
High grade	**19,204,487**	**–**	**–**	**19,204,487**
	₱166,198,964	**₱537,988**	**₱5,450,114**	**₱172,187,066**

**Includes refundable deposits, other investments and RCOCI under "Other Assets".*

	2022			
	Stage 1	Stage 2	Stage 3	Total
Financial assets at amortized cost				
Due from BSP				
High grade	₱17,194,897	₱–	₱–	₱17,194,897
Due from other banks				
High grade	1,196,557	–	–	1,196,557
Securities purchased under resale agreement				
High grade	1,381,191	–	–	1,381,191
Government securities				
High grade	99,561,091	–	–	99,561,091
Corporate bonds				
High grade	167,682	–	–	167,682
Loans receivable from customers				
Corporate:				
High grade	15,671,635	–	–	15,671,635
Standard grade	–	1,116,592	–	1,116,592
Past due	–	–	2,814,618	2,814,618
Individual:				
High grade	3,553,706	–	–	3,553,706
Standard grade	–	534,312	–	534,312
Past due	–	–	852,653	852,653
Accrued interest				
High grade	583,119	1,718	26,026	610,863
Sales contracts receivables				
High grade	46,292	–	–	46,292
Other receivables				
High grade	5,402	–	–	5,402
Other assets*				
High grade	43,973	–	–	43,973
Financial assets at FVOCI				
Government securities				
High grade	20,762,401	–	–	20,762,401
	₱160,167,946	₱1,652,622	₱3,693,297	₱165,513,865

**Includes refundable deposits, other investments and RCOCI under "Other Assets".*

Present information on the concentration of credit risk exposure on financial assets as to industry as at December 31, 2023 and 2022:

	2023			
	Loans Receivables from Customers	**Investment Securities[1]**	**Others[2]**	**Total**
Philippine government	**₱45,000**	**₱127,232,183**	**₱–**	**₱127,258,657**
Financial intermediaries	**722,315**	**–**	**15,129,742**	**15,852,057**
Wholesale and retail trade	**8,211,171**	**–**	**–**	**8,211,171**
Real estate, renting and business activities	**6,532,786**	**–**	**–**	**6,532,786**
(Forward)				
Manufacturing	**₱3,271,359**	**₱–**	**₱–**	**₱3,271,359**
Accommodation and food service activities	**1,952,207**	**–**	**–**	**1,952,207**
Construction	**1,697,072**	**–**	**–**	**1,697,072**
Agriculture	**1,380,820**	**–**	**–**	**1,380,820**
Information and communication	**1,123,796**	**–**	**–**	**1,123,796**
Education	**504,243**	**–**	**–**	**504,243**
Transportation, storage and communication	**483,428**	**–**	**–**	**483,428**
Arts, entertainment and recreation	**286,224**	**–**	**–**	**286,224**
Health and social work	**251,101**	**–**	**–**	**251,101**
Administrative and support service activities	**126,849**	**–**	**–**	**126,849**
Water supply, sewerage, waste management	**98,314**	**–**	**–**	**98,314**
Professional, scientific and technical activities	**37,656**	**–**	**–**	**37,656**
Private households with employed persons	**5,214**	**–**	**–**	**5,214**
Mining and quarrying	**2,550**	**–**	**–**	**2,550**
Others	**1,229,800**	**–**	**–**	**1,229,800**
	27,961,905	**127,232,183**	**15,129,742**	**170,305,551**
Allowance for credit and impairment losses	**(3,120,517)**	**(32,923)**	**–**	**(3,153,440)**
	₱24,841,388	**₱127,199,260**	**₱15,129,742**	**₱167,152,111**

[1]*Comprised of financial assets at FVOCI and amortized cost (excluding equity securities).*
[2]*Comprised of due from BSP, due from other banks, securities purchased under resale agreement, refundable deposits, other investments, and RCOCI.*

	2022			
	Loans Receivables from Customers	Investment Securities[1]	Others[2]	Total
Philippine government	₱–	₱120,347,844	₱–	₱120,347,844
Financial intermediaries	801,627	–	19,816,618	20,618,245
Wholesale and retail trade	7,528,233	167,682	–	7,695,915
Real estate, renting and business activities	5,644,173	–	–	5,644,173
Manufacturing	2,931,285	–	–	2,931,285
Accommodation and food service activities	2,067,483	–	–	2,067,483
Agriculture	1,103,833	–	–	1,103,833
Construction	1,074,310	–	–	1,074,310
Information and communication	664,949	–	–	664,949
Education	506,370	–	–	506,370
Transportation, storage and communication	278,426	–	–	278,426
Health and social work	258,705	–	–	258,705
Arts, entertainment and recreation	250,337	–	–	250,337
Administrative and support service activities	135,685	–	–	135,685
Professional, scientific and technical activities	45,000	–	–	45,000
Private households with employed persons	43,351	–	–	43,351
Mining and quarrying	2,100	–	–	2,100
Water supply, sewerage, waste management	580	–	–	580
Others	1,207,069	–	–	1,207,069
	24,543,516	120,515,526	19,816,618	164,875,660
Allowance for credit and impairment losses	(4,108,861)	(42,934)	–	(4,151,795)
	₱20,434,655	₱120,472,592	₱19,816,618	₱160,723,865

[1]*Comprised of financial assets at FVOCI and amortized cost (excluding equity securities).*
[2]*Comprised of due from BSP, due from other banks, securities purchased under resale agreement, refundable deposits, other investments, and RCOCI.*

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations in all currencies when they become due without incurring unacceptable losses or costs. The Bank's liquidity management is characterized by the following elements: a) good management information system, b) effective analysis of funding requirements under alternative scenarios, c) diversification of funding sources, and d) contingency planning.

Liquidity Risk Management

The Bank's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Bank's business operations or unanticipated events created by customer behavior or capital market conditions. The Bank seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

The Bank's net funding requirements are determined by analyzing its future cash flows based on assumptions of the future behavior of assets, liabilities and off-balance sheet items, and then calculating the cumulative net excess on shortfall over the time frame for the liquidity assessment. Such analysis of net funding requirements involves construction of a Maturity Ladder and calculation of cumulative net excess or deficit. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities. Scenario stress tests are conducted periodically wherein liquidity managers analyze the behavior of cash flows under different conditions, i.e. from "normal" conditions to "extreme" situations. Finally, the BOD sets the Maximum Cumulative Outflow (MCO) Limit in order to control liquidity gap for each currency.

The table below shows the maturity profile of the Bank's financial assets and liabilities, based on contractual undiscounted cash flows (amounts in millions):

	2023				
	On Demand	Less than One Year	One to Five Years	Over Five Years	Total
Financial Assets					
Cash and other cash items	₱1,087	₱–	₱–	₱–	₱1,087
Due from BSP	11,579	–	–	–	11,579
Due from other banks	1,169	–	–	–	1,169
Securities purchased under resale agreement	–	2,337	–	–	2,337
Loans and receivables	–	21,583	4,139	4,556	30,278
Investment securities:					
Financial assets at FVOCI	–	807	4,057	22,487	27,351
Financial assets at amortized cost	–	79,398	13,599	25,362	118,359
Other assets	–	1	44	–	45
	13,835	104,126	21,839	52,405	192,205
Financial Liabilities					
Deposit liabilities	–	140,454	2,553	8,691	151,698
Manager's checks	–	156	–	–	156
Accrued interest and other expenses	–	274	–	–	274
Lease liabilities	–	93	247	3	343
Other liabilities	–	234	–	–	234
	–	141,211	2,800	8,694	152,705
	₱13,835	(₱37,085)	₱19,039	₱43,711	₱39,500

	On Demand	Less than One Year	One to Five Years	Over Five Years	Total
Financial Assets					
Cash and other cash items	₱1,036	₱–	₱–	₱–	₱1,036
Due from BSP	17,195	–	–	–	17,195
Due from other banks	1,197	–	–	–	1,197
Securities purchased under resale agreement	–	1,381	–	–	1,381
Loans and receivables	6,738	14,212	4,388	1,681	27,019
Investment securities:					
Financial assets at FVOCI	–	2,401	2,559	27,135	32,095
Financial assets at amortized cost	–	64,831	16,220	30,738	111,789
Other assets	–	1	43	–	44
	26,166	82,826	23,210	59,554	191,756
Financial Liabilities					
Deposit liabilities	₱–	₱135,619	₱3,232	₱8,222	₱147,073
Manager's checks	–	143	–	–	143
Accrued interest and other expenses	–	144	–	–	144
Lease liabilities	–	60	147	7	214
Other liabilities	–	197	–	–	197
	–	136,163	3,379	8,229	147,771
	₱26,166	(₱53,337)	₱19,831	₱51,325	₱43,985

The Bank manages its short-term negative gap by making available funds sourced from various other financial institutions and taking measures to maintain long-term core deposits from regular clients.

Liquidity Positions and Leverage of the Bank

To promote short-term resilience of bank's liquidity risk profile, the BSP requires banks and other regulated entities to maintain:

- over a 30-day calendar day horizon, an adequate level of unencumbered high-quality liquid assets (HQLA) that consists of cash or assets that can be converted into cash to offset the net cash outflows they could encounter under a liquidity stress scenario; and

- a stable funding profile in relation to the composition of their assets and off-balance sheet activities.

To monitor the liquidity levels, the Bank computes for its Liquidity Coverage Ratio (LCR), which is the ratio of HQLA to the total net cash outflows. As at December 31, 2023 and 2022, LCR reported to the BSP is 2,215.15% and 2,257.25%, respectively.

The Bank also computes for its Net Stable Funding Ratio (NSFR), which is the ratio of the available stable funding to the required stable funding. Both LCR and NSFR should be maintained no lower than 100% on a daily basis under normal situations.

NSFR reported to the BSP is as follows (amount in millions):

	2023	2022
Available stable funding	**₱148,270**	₱142,367
Required stable funding	**38,306**	36,226
NSFR	**3.87**	3.93

Market Risk

Market risk is the risk of loss, immediate or overtime due to adverse fluctuations in the price or market value of instruments, products, and transactions in the Bank's overall portfolio. The value of these financial instruments may change as a result of changes in interest rate, foreign exchange rate, and other market changes. The Bank's market risk originates from its inventory of foreign exchange and debt securities. The objective of market risk management is to manage and control the market risk exposures within acceptable parameters, while optimizing the return on investments.

Interest Rate Risk

Interest rate risk involves the movements of rates across yield curves of one or more instruments. The principal risk to which financial instruments are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. The Bank manages its resources and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for interest rate repricing. The Bank's management monitors compliance with these limits.

The details of the Bank's exposure to interest rate risk at the reporting date are shown below in reference to their contractual repricing or maturity dates (amounts in millions):

	2023				
	Repricing				
	Less than One Year	**One to Five Years**	**Over Five Years**	**Non-Repricing**	**Total**
Financial Assets					
Due from BSP	**₱–**	**₱–**	**₱–**	**₱11,579**	**₱11,579**
Due from other banks	**–**	**–**	**–**	**1,169**	**1,169**
Securities purchased under resale agreement	**2,337**	**–**	**–**	**–**	**2,337**
Loans and receivables	**25,273**	**1,287**	**590**	**–**	**27,150**
Investment securities:					
Debt securities at FVOCI	**–**	**–**	**–**	**19,204**	**19,204**
Financial assets at amortized cost	**–**	**–**	**–**	**107,995**	**107,995**
	27,610	**1,287**	**590**	**139,947**	**169,434**
Financial Liabilities					
Deposit liabilities	**140,448**	**2,559**	**8,691**	**–**	**151,698**
Lease liabilities	**–**	**–**	**–**	**303**	**303**
	140,448	**2,559**	**8691**	**303**	**152,001**
Total Interest Gap	**(₱112,838)**	**(₱1,272)**	**(₱8,101)**	**₱139,644**	**₱17,433**

	2022				
	Repricing				
	Less than One Year	One to Five Years	Over Five Years	Non-Repricing	Total
Financial Assets					
Due from BSP	₱–	₱–	₱–	₱17,195	₱17,195
Due from other banks	–	–	–	1,197	1,197
Securities purchased under resale agreement	–	–	–	1,381	1,381
Loans and receivables	19,483	1,850	61	–	21,394
Investment securities:					
Debt securities at FVOCI	–	–	–	20,762	20,762
Financial assets at amortized cost	–	–	–	99,710	99,710
	19,483	1,850	61	140,245	161,639
Financial Liabilities					
Deposit liabilities	135,619	3,232	8,222	–	147,073
Lease liabilities	–	–	–	194	194
	135,619	3,232	8,222	194	147,267
Total Interest Gap	(₱116,136)	(₱1,382)	(₱8,161)	₱140,051	₱14,372

The Bank computes stress test on interest sensitive assets and liabilities, except for financial assets at FVOCI through gapping.

The details of the reported stress testing on interest gaps at the reporting date are shown below (amount in millions):

	2023			
	Less than One Month	**One to Three Months**	**Over Three Months**	**Total**
Peso-denominated Interest Sensitive Assets and Liabilities				
Assets	**₱74,067**	**₱39,462**	**₱2,047**	**₱115,576**
Liabilities	**105,347**	**545**	**817**	**106,709**
Gap	**(31,280)**	**38,917**	**1,230**	**8,867**
Cumulative Asset - Liability Gap	**(₱31,280)**	**₱7,637**	**₱8,867**	
Foreign-denominated Interest Sensitive Assets and Liabilities				
Assets	**₱789**	**₱–**	**₱–**	**₱789**
Liabilities	**2,353**	**23,314**	**10,775**	**36,442**
Gap	**(1,564)**	**(23,314)**	**(10,775)**	**(35,653)**
Cumulative Asset - Liability Gap	**(₱1,564)**	**(₱24,878)**	**(₱35,653)**	

	2022			
	Less than One Month	One to Three Months	Over Three Months	Total
Peso-denominated Interest Sensitive Assets and Liabilities				
Assets	₱91,882	₱4,201	₱4,930	₱101,013
Liabilities	97,919	896	818	99,633
Gap	(6,037)	3,305	4,112	1,380
Cumulative Asset - Liability Gap	(₱6,037)	(₱2,732)	₱1,380	
Foreign-denominated Interest Sensitive Assets and Liabilities				
Assets	₱1,208	₱–	₱1,722	₱2,930
Liabilities	3,169	22,967	9,839	35,975
Gap	(1,961)	(22,967)	(8,117)	(33,045)
Cumulative Asset - Liability Gap	(₱1,961)	(₱24,928)	(₱33,045)	

The details of the reported impact of negative gaps on net interest income at the reporting date are shown below (amounts in millions):

	2023		2022	
	Amount	**Percentage to Net Income**	Amount	Percentage to Net Income
Peso-denominated				
50 bps increase in Php interest rates	**₱44.33**	**3.77%**	₱6.90	0.98%
100 bps increase in Php interest rates	**88.66**	**7.54%**	13.80	1.95%
Foreign-denominated				
50 bps increase in USD interest rates (in USD)	**0.02**	**0.00%**	(2.96)	(0.42%)
100 bps increase in USD interest rates (in USD)	**0.05**	**0.00%**	(5.90)	(0.84%)
50 bps increase in USD interest rates (in Php)	**1.35**	**0.11%**	(165.22)	(23.52%)
100 bps increase in USD interest rates (in Php)	**2.70**	**0.23%**	(330.44)	(47.04%)

(Forward)

	2023		2022	
	Amount	**Percentage to Net Income**	Amount	Percentage to Net Income
Peso-denominated				
50 bps decrease in Php interest rates	**(₱44.33)**	**(3.77%)**	(₱6.90)	(0.98%)
100 bps decrease in Php interest rates	**(88.66)**	**(7.54%)**	(13.80)	(47.04%)
Foreign-denominated				
50 bps decrease in USD interest rates (in USD)	**(0.02)**	**0.00%**	2.96	0.42%
100 bps decrease in USD interest rates (in USD)	**(0.05)**	**0.00%**	5.93	0.84%
50 bps decrease in USD interest rates (in Php)	**(1.35)**	**(0.11%)**	165.22	23.52%
100 bps decrease in USD interest rates (in Php)	**2.70**	**(0.23%)**	330.44	47.04%

The Bank also calculates price volatility on debt securities at FVOCI (through modified duration) in case of changes in interest rates. The following details are shown below:

	2023				
	Market value	**- 50 bps**	**- 100 bps**	**+ 50 bps**	**+ 100 bps**
Foreign-denominated					
Less than one year	**$4,241**	**$1**	**$2**	**($1)**	**($2)**
>Five to 15 years	**229,065**	**6,867**	**13,735**	**(6,867)**	**(13,735)**
Over 15 years	**113,533**	**7,929**	**15,858**	**(7,929)**	**(15,858)**
Total in USD	**346,839**	**14,797**	**29,595**	**(14,797)**	**(29,595)**
Total in Philippine Peso	**₱19,204,487**	**₱819,330**	**₱1,638,660**	**(₱819,330)**	**(₱1,638,660)**
As percentage of financial assets at FVOCI		**4.27%**	**8.53%**	**(4.27%)**	**(8.53%)**

	2022				
	Market value	- 50 bps	- 100 bps	+ 50 bps	+ 100 bps
Foreign-denominated					
Less than one year	$30,884	$62	$125	($62)	($125)
>Five to 15 years	233,137	8,836	17,671	(8,836)	(17,671)
Over 15 years	108,365	8,449	16,898	(8,449)	(16,898)
Total in USD	372,386	17,347	34,694	(17,347)	(34,694)
Total in Philippine Peso	₱20,762,401	₱967,182	₱1,934,364	(₱967,182)	(₱1,934,364)
As percentage of financial assets at FVOCI		4.66%	9.32%	(4.66%)	(9.32%)

Foreign Exchange Risk

Foreign exchange risk arises on financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

In translating the foreign currency-denominated monetary assets into Peso, the exchange rates used were ₱55.37 to US$1 as at December 31, 2023 and ₱55.76 to US$1 as at December 31, 2022.

Information on the Bank's foreign currency-denominated monetary assets and liabilities in their Philippine Peso equivalents follows:

	2023		2022	
	USD	**In Peso**	USD	In Peso
Financial Assets				
Cash and other cash items	**$4,667**	**₱258,415**	$3,092	₱172,410
Due from other banks	**14,253**	**789,173**	15,698	875,255
Accrued interest receivables	**7,803**	**432,047**	7,010	390,852
Investment securities:				
Financial assets at FVOCI	**322,706**	**17,868,220**	362,035	20,185,285
Financial assets at amortized cost	**315,193**	**17,452,216**	318,610	17,764,073
	664,622	**36,800,071**	706,445	39,387,875
Financial Liabilities				
Deposit liabilities:				
Savings	**$42,489**	**₱2,352,634**	$56,836	₱3,168,908
Time	**612,725**	**33,926,563**	646,190	36,028,330
Other liabilities	**2,940**	**162,818**	1,379	76,879
	658,154	**36,442,015**	704,405	39,274,117
Net foreign currency-denominated assets	**$6,468**	**₱358,056**	$2,040	₱113,758

Foreign currency liabilities generally consist of foreign currency deposits in the Bank's FCDU, which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party.

Foreign currency deposits are generally used to fund the Bank's foreign currency denominated loans and FCDU investment portfolio. Banks are required by the BSP to match foreign currency assets with the foreign currency liabilities held through FCDU. In addition, the BSP requires a 30% liquidity reserve on all foreign currency liabilities held through FCDU.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Bank believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the Bank is engaged.

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market, and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from Bank operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

Fair Value Estimation

The fair value hierarchy of the Bank's financial assets and liabilities measured at fair values is presented below:

	2023				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Assets					
Cash and other cash items	**₱1,087,157**	**₱1,087,157**	**₱–**	**₱–**	**₱1,087,157**
Due from BSP	**11,579,430**	**11,579,430**	**–**	**–**	**11,579,430**
Due from other banks	**1,169,066**	**1,169,066**	**–**	**–**	**1,169,066**
Securities purchased under resale agreement	**2,336,535**	**2,336,535**	**–**	**–**	**2,336,535**
Loans and receivables	**26,533,533**		**–**	**26,533,533**	**26,533,533**
Financial assets at FVOCI:					
Debt securities -					
Government securities	**19,204,487**	**19,204,487**	**–**	**–**	**19,204,487**
Equity securities:					
Quoted equity securities	**277,372**	**277,372**	**–**	**–**	**277,372**
Unquoted equity securities	**168**	**–**	**–**	**168**	**168**
Financial assets at amortized cost:					
Government securities	**107,994,772**	**107,556,177**	**–**	**–**	**107,556,177**
Other assets*	**44,711**	**1,000**	**–**	**43,711**	**44,711**
	₱170,227,231	**₱143,211,224**	**₱–**	**₱26,577,412**	**₱169,788,636**
Liabilities					
Deposit liabilities	**₱151,698,140**	**₱–**	**₱151,698,140**	**₱–**	**₱151,698,140**
Manager's check	**155,863**	**155,863**	**–**	**–**	**155,863**
Accrued interest and other expenses	**273,893**	**–**	**273,893**	**–**	**273,893**
Lease liabilities	**303,940**	**–**	**303,940**	**–**	**303,940**
Other liabilities**	**233,875**	**–**	**–**	**233,875**	**233,875**
	₱152,665,711	**₱155,863**	**₱152,275,973**	**₱233,875**	**₱152,665,711**

**Includes refundable deposits, other investments and RCOCI under "Other Assets".*
***Excluding statutory liabilities, provision for impairment losses on commitments and contingent assets and retirement liability.*

	2022				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Assets					
Cash and other cash items	₱1,035,708	₱1,035,708	₱–	₱–	₱1,035,708
Due from BSP	17,194,897	17,194,897	–	–	17,194,897
Due from other banks	1,196,557	1,196,557	–	–	1,196,557
Securities purchased under resale agreement	1,381,191	1,381,191	–	–	1,381,191
Loans and receivables	21,074,445	–	–	21,074,445	21,074,445
Financial assets at FVOCI:					
Debt securities -					
Government securities	20,762,401	20,762,401	–	–	20,762,401
Equity securities:					
Quoted equity securities	938,592	938,592	–	–	938,592
Unquoted equity securities	168	–	–	168	168
Financial assets at amortized cost:					
Government securities	99,543,601	95,117,909	–	–	95,117,909
Corporate bonds	166,590	165,919	–	–	165,919
Other assets*	43,973	562	–	43,411	43,973
	₱163,338,123	₱137,793,736	₱–	₱21,118,024	₱158,911,760
Liabilities					
Deposit liabilities	₱147,072,526	₱–	₱147,072,526	₱–	₱147,072,526
Manager's check	142,903	142,903	–	–	142,903
Accrued interest and other expenses	143,619	–	–	143,619	143,619
Lease liabilities	193,870	–	193,870	–	193,870
Other liabilities**	196,551	–	–	196,551	196,551
	₱147,749,469	₱142,903	₱147,266,396	₱340,170	₱147,749,469

**Includes refundable deposits, other investments and RCOCI under "Other Assets".*
***Excluding statutory liabilities, provision for impairment losses on commitments and contingent assets and retirement liability.*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and Other Cash Items, Due from BSP and Other Banks, Securities Purchased Under Resale Agreement, Refundable Deposits, Other Investments, and RCOCI. The carrying amounts approximate their fair values in view of the relatively short-term maturities of these instruments, or it approximates the amounts expected to be received.

Debt Securities. This pertains to government-issued debt securities. Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity Securities. This includes quoted and unquoted equity securities. For publicly traded equity securities, fair values are based on quoted prices published in the Philippine equity markets. For unquoted equity securities for which no reliable basis for fair value measurement is available, these are carried at cost net of impairment, if any.

Loans and Receivables. Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rates for similar types of loans and receivables.

Generally, significant increases (decreases) in rate would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in effective interest rate would result in a significantly lower (higher) fair value measurement.

Deposit Liabilities. Carrying amounts of deposit liabilities approximate fair values considering that these are currently due and demandable.

Manager's Checks. Carrying amounts approximate fair values due to the short-term nature of the accounts.

Lease Liabilities. Carrying amounts of lease liability approximates its fair value as these are measured at the present value of lease payments to be made over the lease term using the Bank's incremental borrowing rates based on the BVAL rates.

Accrued Interest and Other Expenses and Other Liabilities. Quoted market prices are not readily available for these liabilities. These are reported at cost and are not significant in relation to the Bank's total portfolio.

There were no transfers between levels 1, 2 and 3 during the year.

5. **Capital Risk Management**

The Bank's capital management seeks to maintain adequate capital levels at all times, not only to comply with externally imposed capital requirements, maintain healthy capital ratios in order to support its business, withstand plausible stress events but also to optimize shareholders' value.

The Bank actively manages its capital structure and makes adjustments in light of the changes in economic conditions and the risk characteristics of its activities. In so doing, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made to the objectives, policies, and processes as at December 31, 2023 and 2022.

Capital Management

Under the existing BSP regulations, the determination of compliance with regulatory requirements and ratios is based on the amount of the "qualifying capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of the Regulatory Accounting Principles (RAP) that differ from PFRS in some respects. In addition, the risk-based capital ratio of a bank or Capital Adequacy Ratio (CAR) expressed as a percentage of qualifying capital to risk-weighted assets should not be less than 10% at all times.

Qualifying capital and risk-weighted assets are computed based on the RAP. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

The CAR of the Bank as at December 31, as reported to the BSP, follows (amounts in millions):

	2023	2022
Tier 1 capital	**₱21,462**	₱19,856
Tier 2 capital	**525**	239
Total regulatory qualifying capital	**₱21,987**	₱20,095
Risk-weighted assets	**₱50,791**	₱48,164
Tier 1 capital ratio	**42.26%**	41.23%
Tier 2 capital ratio	**1.03%**	0.50%
Total capital ratio	**43.29%**	41.72%

The Bank has fully complied with the CAR requirement of the BSP as at December 31, 2023 and 2022.

The Bank, as a universal bank with 61 branches, including Head Office, as at December 31, 2023 and 2022, is required to maintain a minimum capital of ₱15.0 billion. Accordingly, the Bank maintains an acceptable level of equity to comply with the minimum capital requirement. As at December 31, 2023 and 2022, the Bank has complied with the required capitalization.

As part of the reforms of the PSE to expand capital market and improve transparency among listed firms, the PSE requires listed entities to maintain a minimum of 10% of their issued and outstanding shares, exclusive of any treasury shares, held by the public. The Bank has fully complied with this requirement.

The BSP also requires the Basel III Leverage Ratio (BLR), which is designed to act as a supplementary measure to the risk-based capital requirements. BLR intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes, which can damage the broader financial system and the economy. It also reinforces the risk-based requirements with a simple, non-risk based "backstop" measure. The BLR is computed as the capital measure (Tier 1 capital) divided by the total exposure measure and should not be less than 5.00%.

As at December 31, 2023 and 2022, the BLR reported to the BSP is as follows (amounts in millions):

	2023	2022
Tier 1 capital	**₱21,462**	₱19,856
Total exposure measure	**172,740**	168,049
BLR	**12.42%**	11.82%

The BLR is computed based on the RAP. The Bank is compliant with the BSP requirements as at December 31, 2023 and 2022.

6. **Cash and Cash Equivalents**

This account consists of:

	Note	**2023**	2022
Cash and other cash items		**₱1,087,157**	₱1,035,708
Due from BSP	14	**11,579,430**	17,194,897
Due from other banks		**1,169,066**	1,196,557
		₱13,835,653	₱19,427,162

Due from other banks represents balances of funds on deposit with other domestic and foreign banks.

Due from BSP represents the deposit balance maintained with the BSP to meet reserve requirements.

	2023	2022	2021
Due from BSP	5.00% to 6.76%	1.50% to 6.38%	1.50% to 4.80%
Due from other banks	0.01% to 0.06%	0.01% to 1.30%	0.05% to 1.50%

Interest income amounted to ₱386,719, ₱557,439 and ₱560,440 in 2023, 2022 and 2021, respectively.

7. Securities Purchased under Resale Agreement

These pertain to the overnight placements with the BSP as at December 31, 2023 and 2022, where the underlying securities cannot be sold or re-pledged to parties other than the BSP. Effective interest earned from these placements ranges from 5.50% to 6.48% in 2023, from 2.00% to 5.50% in 2022, from 2.00% to 4.50% in 2021.

As at December 31, 2023 and 2022, the account amounted to ₱2,336,535 and ₱1,381,191, respectively.

Interest income amounted to ₱149,497, ₱69,579 and ₱49,287 in 2023, 2022 and 2021, respectively.

8. Investment Securities

Details and movements of this account are as follows:

		2023		
		Financial Assets at		
	Note	**Amortized Cost**	**FVOCI**	**Total**
Balances at beginning of year		**₱99,710,191**	**₱21,701,161**	**₱121,411,352**
Additions		**699,313,140**	**208,485**	**699,521,625**
Maturities/disposals		**(690,889,360)**	**(2,920,502)**	**(693,809,862)**
Net unrealized fair value gain		**–**	**665,244**	**665,244**
Translation adjustment		**(116,006)**	**(117,254)**	**(233,260)**
Net amortization of premium		**(27,266)**	**(60,935)**	**(88,201)**
		107,990,699	**19,476,199**	**127,466,898**
Reversal of impairment losses	13	**4,074**	**5,828**	**9,902**
Balances at end of year		**₱107,994,773**	**₱19,482,027**	**₱127,476,800**

		2022		
		Financial Assets at		
	Note	Amortized Cost	FVOCI	Total
Balances at beginning of year		₱60,269,012	₱26,019,685	₱86,288,697
Additions		514,060,018	139,623	514,199,641
Maturities/disposals		(476,146,720)	(1,188,906)	(477,335,626)
Net unrealized fair value loss		–	(5,471,928)	(5,471,928)
Translation adjustment		1,509,425	2,292,681	3,802,106
Net amortization of premium		(47,998)	(89,994)	(137,992)
		99,643,737	21,701,161	121,344,898
Reversal of impairment losses	13	66,454	–	66,454
Balances at end of year		₱99,710,191	₱21,701,161	₱121,411,352

Interest income on investment securities consists of:

	2023	2022	2021
Financial assets at amortized cost	**₱5,484,434**	₱3,052,802	₱1,998,008
Financial assets at FVOCI	**744,008**	751,568	748,765
	₱6,228,442	₱3,804,370	₱2,746,773

Details on sale/maturity of investment securities are as follows:

	2023	2022	2021
Proceeds/consideration	**₱694,444,205**	₱477,585,883	₱275,036,396
Carrying amount	**693,809,862**	477,335,626	274,265,851
Gain on sale	**₱634,343**	₱250,257	₱770,545

The proceeds/consideration in 2023 includes the receivable from sale of investment in quoted equity shares amounting to ₱1,199,662, which is treated as a non-cash transaction.

Financial Assets at Amortized Cost
This account consists of:

	2023	2022
Government securities	**₱107,994,773**	₱99,543,601
Corporate bonds	**–**	166,590
	₱107,994,773	₱99,710,191

The range of average interest rates of financial assets at amortized cost follows:

	2023	2022	2021
Peso-denominated	**2.38% to 7.25%**	2.38% to 7.50%	1.69% to 6.88%
Foreign-denominated	**2.46% to 5.95%**	2.48% to 5.95%	1.65% to 5.00%

Interest income from financial assets at amortized cost amounted to ₱5,484,434, ₱3,052,802 and ₱1,998,008 in 2023, 2022 and 2021, respectively.

Financial assets at amortized cost include BSP bills amounting to ₱73,000,000 of which interest income was received in advance, net of final tax. As at December 31, 2023, unearned interest amounted to ₱392,861.

Details on sale/maturity of financial assets at amortized cost are as follows:

	2023	2022	2021
Proceeds	**₱690,993,209**	₱476,359,686	₱270,706,873
Carrying amount	**690,889,360**	476,146,720	270,297,175
Gain on sale	**₱103,849**	₱212,966	₱409,698

Financial Assets at FVOCI

This account consists of:

	2023	2022
Debt securities -		
Government securities	**₱19,204,487**	₱20,762,401
Equity securities:		
Quoted	**277,372**	938,592
Unquoted	**168**	168
	277,540	938,760
	₱19,482,027	₱21,701,161

Government-issued Debt Securities. Investments in government-issued debt securities pertain to treasury notes, treasury bonds and dollar-denominated bonds issued by the Philippine government. The fair values of these debt securities are reported using quoted market prices as at reporting date.

The Bank has been managing its debt securities under the financial asset at FVOCI business model to address potential liquidity issues. As at December 31, 2023 and 2022, the Bank has assessed that it has sufficient liquid assets.

Quoted market prices vary with prevailing interest rates in 2022 and 2021. The fair values of the debt securities decreased significantly resulting to unrealized losses on fair value changes amounting to ₱5,471,928 and ₱1,720,969, respectively, recognized in other comprehensive loss pursuant to the financial reporting standard. The situation arose due to policy increases in interest rates decided upon by the authorities to control inflation. An increase in prevailing interest rates automatically reduces the reported value of fixed income securities considered as securities held for sale and classified as financial assets. In 2023, a turnaround in market interest rates occurred resulting to an unrealized fair value gain of ₱665,244 during the year.

The Bank can hold these securities to maturity at which time these are scheduled to be redeemed at their principal value. However, the Bank can also dispose of these investments should the market conditions improve. If the Bank will hold to these securities up to its maturity, there should have been no unrealized fair value losses.

The range of average interest rates of debt securities at FVOCI is as follows:

	2023	2022	2021
Foreign-denominated	**1.65% to 6.38%**	1.65% to 6.38%	1.65% to 6.38%
Peso-denominated	**–**	4.75% to 5.75%	3.50% to 5.75%

Interest income from financial assets at amortized cost amounted to ₱744,008, ₱751,568 and ₱748,765 in 2023, 2022 and 2021, respectively.

Quoted Equity Securities. Investments in quoted equity securities pertain to various shares of companies listed in the PSE. Fair values of quoted equity securities are based on quoted market prices as at reporting date.

As mandated by the BSP, on July 7, 2023, the Bank sold its investment in PBCOM for a consideration amounting to ₱1,639,330 through the execution of CPS, resulting to a gain of ₱473,035. The consideration, which will be received through a one-time payment at the end of the five-year term, is recognized as "Receivables from sale of investment in quoted equity shares" presented under "Loans and receivables" account, net of unearned discount (see Note 9).

Details are as follows:

Proceeds	₱1,639,330
Unearned discount	439,668
Accretion	(43,969)
	395,701
Carrying amount	₱1,243,629

The incremental rate for similar type of instruments were used in the discounting the receivables, as the CPS does not bear interest. Provision for credit and impairment losses amounting to ₱186,544 was recognized in 2023 (see Note 13). Realized fair value loss at the time of sale amounting to ₱452,230 was adjusted against retained earnings.

In 2022, the Bank sold for cash certain investments in quoted equity shares with carrying value of ₱206,913 for ₱202,461, resulting to loss of ₱4,452. Realized fair value loss at the time of sale amounting to ₱68,517 was adjusted against retained earnings.

Unquoted Equity Securities. This account is comprised of shares of stock of private corporations that are carried at cost since fair value cannot be reliably estimated due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. There is currently no market for these investments and the Bank intends to hold them for long-term.

Movements in cumulative unrealized losses on fair value changes of financial assets at FVOCI are as follows:

	2023	2022
Balance at beginning of year	**(₱4,284,805)**	₱1,118,606
Unrealized fair value gains (losses)	**659,416**	(5,562,867)
Reversal of allowance for impairment losses	**5,828**	90,939
Net unrealized gains (losses)	**665,244**	(5,471,928)
Realized fair value losses	**452,230**	68,517
Balance at end of year	**(₱3,167,331)**	(₱4,284,805)

Details on sale/maturity of financial assets at FVOCI are as follows:

	2023	2022	2021
Proceeds/consideration*	**₱3,450,996**	₱1,226,197	₱4,329,523
Carrying amount	**2,920,502**	1,188,906	3,968,676
Gain on sale	**₱530,494**	₱37,291	₱360,847

**Includes receivable from the sale of investment in quoted equity shares as at December 31, 2023*

9. Loans and Receivables

This account consists of:

	Note	2023	2022
Loans receivable from customers:			
Corporate		**₱23,476,990**	₱19,602,845
Individual		**4,484,915**	4,940,671
		27,961,905	24,543,516
Receivable from sale of investment in quoted equity shares	8	**1,243,629**	–
Accrued interest		**581,490**	610,863
Sales contract receivables		**33,663**	46,292
Others		**22,978**	5,402
		29,843,665	25,206,073
Allowance for credit and impairment losses	13	**(3,310,132)**	(4,131,628)
		₱26,533,533	₱21,074,445

Loans receivable from customers consists of:

	2023	2022
Bills discounted loans	**₱15,434,830**	₱14,338,716
Term loans	**8,706,527**	7,879,908
Trust receipts	**2,041,551**	1,707,158
Agrarian reform	**1,778,997**	617,734
	₱27,961,905	₱24,543,516

The range of average interest rates of loans receivables from customers of the Bank for the years ended December 31 follows:

	2023	2022	2021
Corporate loans	**2.25% to 18.46%**	2.25% to 10.52%	2.00% to 10.00%
Individual loans	**2.18% to 22.67%**	1.38% to 22.67%	1.25% to 16.85%

Interest income on loans and receivables consists of:

	2023	2022	2021
Loans receivable from customers	**₱1,639,226**	₱1,126,687	₱1,046,869
Receivable from sale of investment in quoted equity shares	**43,969**	–	–
Sales contract receivables	**2,737**	1,414	1,562
	₱1,685,932	₱1,128,101	₱1,048,431

10. **Property and Equipment**

Details and movements of this account are as follows:

	2023					
	Land	**Buildings and Improvements**	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**ROU Assets** (see Note 24)	**Total**
Cost						
Balance at beginning of year	**₱2,360,888**	**₱1,205,957**	**₱572,274**	**₱66,256**	**₱300,268**	**₱4,505,643**
Additions	**–**	**45,512**	**41,500**	**7,642**	**179,044**	**273,698**
Disposals	**–**	**(2,186)**	**(18,052)**	**(4,041)**	**(36,011)**	**(60,290)**
Balance at end of year	**2,360,888**	**1,249,283**	**595,722**	**69,857**	**443,301**	**4,719,051**
Accumulated Depreciation and Amortization						
Balance at beginning of year	**–**	**605,544**	**527,168**	**56,512**	**128,838**	**1,318,062**
Depreciation and amortization	**–**	**44,335**	**25,752**	**4,745**	**65,923**	**140,755**
Disposals	**–**	**(2,186)**	**(9,383)**	**(1,709)**	**(30,967)**	**(44,245)**
Balance at end of year	**–**	**647,693**	**543,537**	**59,548**	**163,794**	**1,414,572**
Carrying Amount	**₱2,360,888**	**₱601,590**	**₱52,185**	**₱10,309**	**₱279,507**	**₱3,304,479**

	2022					
	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	ROU Assets (see Note 24)	Total
Cost						
Balance at beginning of year	₱2,035,457	₱1,266,293	₱563,520	₱66,724	₱266,745	₱4,198,739
Additions	343,515	53,423	22,814	1,056	64,629	485,437
Disposals	(18,084)	(113,759)	(14,060)	(1,524)	(31,106)	(178,533)
Balance at end of year	2,360,888	1,205,957	572,274	66,256	300,268	4,505,643
(Forward)						
Accumulated Depreciation and Amortization						
Balance at beginning of year	₱–	₱573,207	₱506,288	₱52,836	₱105,994	₱1,238,325
Depreciation and amortization	–	42,523	31,863	5,200	53,950	133,536
Disposals	–	(10,186)	(10,983)	(1,524)	(31,106)	(53,799)
Balance at end of year	–	605,544	527,168	56,512	128,838	1,318,062
Carrying Amount	₱2,360,888	₱600,413	₱45,106	₱9,744	₱171,430	₱3,187,581

Details of depreciation and amortization are as follows:

	Note	**2023**	2022	2021
Property and equipment		**₱140,755**	₱133,536	₱122,941
Investment properties	11	**44,969**	32,272	19,160
Computer software	12	**9,109**	9,227	6,278
	22	**₱194,833**	₱175,035	₱148,379

Details on sale of property and equipment are as follows:

	Note	**2023**	2022	2021
Proceeds		**₱11,165**	₱167,837	₱132,004
Carrying amount		**11,001**	124,734	129,767
Gain on sale	20	**₱164**	₱43,103	₱2,237

The disposal on ROU assets pertain to the pre-termination of a lease contract in 2023 (see Note 24).

11. Investment Properties

Details and movements of this account are as follows:

	Note	2023 Land	2023 Buildings and Improvements	2023 Total
Cost				
Balance at beginning of year		**₱1,834,458**	**₱407,671**	**₱2,242,129**
Foreclosures		**169,025**	**127,723**	**296,748**
Disposals		**(15,237)**	**(5,232)**	**(20,469)**
Balance at end of year		**1,988,246**	**530,162**	**2,518,408**
Accumulated Depreciation and Amortization				
Balance at beginning of year		**–**	**166,435**	**166,435**
Depreciation and amortization	10	**–**	**44,969**	**44,969**
Disposals		**–**	**(2,031)**	**(2,031)**
Balance at end of year		**–**	**209,373**	**209,373**
Accumulated Impairment Losses				
Balance at beginning of year		**69,265**	**994**	**70,259**
Provision		**19,380**	**–**	**19,380**
Disposals		**(38)**	**(994)**	**(1,032)**
Balance at end of year		**88,607**	**–**	**88,607**
Carrying Amount		**₱1,899,639**	**₱320,789**	**₱2,220,428**

	Note	2022 Land	2022 Buildings and Improvements	2022 Total
Cost				
Balance at beginning of year		₱1,452,485	₱380,056	₱1,832,541
Foreclosures		405,975	34,682	440,657
Disposals		(24,002)	(7,067)	(31,069)
Balance at end of year		1,834,458	407,671	2,242,129
Accumulated Depreciation and Amortization				
Balance at beginning of year		–	140,528	140,528
Depreciation and amortization	10	–	32,272	32,272
Disposals		–	(6,365)	(6,365)
Balance at end of year		–	166,435	166,435
Accumulated Impairment Losses				
Balance at beginning of year		29,454	1,031	30,485
Provision		40,689	–	40,689
Disposals		(878)	(37)	(915)
Balance at end of year		69,265	994	70,259
Carrying Amount		₱1,765,193	₱240,242	₱2,005,435

Details on the sale of investment properties are as follows:

	2023	2022	2021
Proceeds	**₱24,784**	₱52,353	₱340,218
Carrying amount	**17,406**	23,789	74,871
Gain on sale	**₱7,378**	₱28,564	₱265,347

Direct operating expense on investment properties amounted to ₱26.7 million, ₱25.2 million and ₱10.8 million in 2023, 2022 and 2021, respectively.

In 2023, 2022 and 2021, loans with an aggregate carrying amount of ₱190.2 million, ₱299.8 million and ₱53.0 million, respectively, were derecognized in exchange for foreclosed properties. Gain on foreclosure amounted to ₱106,473, ₱140,884 and ₱36,210 in 2023, 2022 and 2021, respectively.

The aggregate fair value of the investment properties amounted to ₱4,619.4 million and ₱4,758.6 million as at December 31, 2023 and 2022, respectively. Fair value was determined based on valuations made by independent or in-house appraisers. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value. The fair value measurement is categorized as Level 2 (significant observable inputs).

12. **Other Assets**

This account consists of:

	2023	2022
Prepaid expenses	**₱175,865**	₱103,302
Creditable withholding tax	**62,911**	53,637
Documentary stamp tax	**31,167**	31,959
Refundable deposits	**22,354**	22,354
Computer software	**21,519**	25,161
Other investments	**21,357**	21,057
Others	**21,843**	66,040
	₱357,016	₱323,510

Prepaid expenses comprise mainly of business taxes and licenses, and insurance premium paid in advance.

Movements in computer software are as follows:

	Note	**2023**	2022
Cost			
Balance at beginning of year		**₱90,184**	₱89,573
Additions		**5,467**	611
Balance at end of year		**95,651**	90,184
Amortization			
Balance at beginning of year		**65,023**	55,796
Amortization	10	**9,109**	9,227
Balance at end of year		**74,132**	65,023
Carrying Amount		**₱21,519**	₱25,161

Other investments represent the required minimum amount of investment in various banking facilities to avail of their services and support the viability and sustainability of the banking network system.

13. **Allowance for Credit and Impairment Losses**

Movements in the allowance for credit and impairment losses on financial assets are as follows:

	2023				
	Financial Assets at Amortized Cost (see Note 8)	**Debt Securities at FVOCI** (see Note 8)	**Loans and Receivables** (see Note 9)	**Commitments and Other Contingent Assets** (see Note 16)	**Total**
Balances at beginning of year	**₱18,582**	**₱24,352**	**₱4,131,628**	**₱14,257**	**₱4,188,819**
Reversal	**(4,074)**	**(5,828)**	**(821,496)**	**–**	**(831,398)**
Translation adjustment	**(109)**	**–**	**–**	**–**	**(109)**
Balances at end of year	**₱14,399**	**₱18,524**	**₱3,310,132**	**₱14,257**	**₱3,357,312**

	2022				
	Financial Assets at Amortized Cost (see Note 8)	Debt Securities at FVOCI (see Note 8)	Loans and Receivables (see Note 9)	Commitments and Other Contingent Assets (see Note 16)	Total
Balances at beginning of year	₱79,208	₱107,623	₱4,252,428	₱14,257	₱4,453,516
Reversal	(66,454)	(90,939)	–	–	(157,393)
Derecognition	–	–	(120,800)	–	(120,800)
Translation adjustment	5,828	7,668	–	–	13,496
Balances at end of year	₱18,582	₱24,352	₱4,131,628	₱14,257	₱4,188,819

	2021				
	Financial Assets at Amortized Cost (see Note 8)	Debt Securities at FVOCI (see Note 8)	Loans and Receivables (see Note 9)	Commitments and Other Contingent Assets (see Note 16)	Total
Balances at beginning of year	₱19,108	₱26,616	₱4,201,515	₱14,257	₱4,261,496
Provision	60,100	81,007	1,321,046	–	1,462,153
Reversal	–	–	(1,207,724)	–	(1,207,724)
Derecognition	–	–	(62,409)	–	(62,409)
Balances at end of year	₱79,208	₱107,623	₱4,252,428	₱14,257	₱4,453,516

With the foregoing level of allowance for credit and impairment losses, management believes that the Bank has sufficient allowance to cover for any losses that the Bank may incur from the non-collection or non-realization of its financial assets.

Allowance for credit and impairment losses on loans and receivables relates to the following:

	2023	2022
Loans receivables from customers	**₱3,120,517**	₱4,108,861
Receivable from sale of investment in quoted equity shares	**186,544**	–
Accrued interest	**3,071**	22,767
	₱3,310,132	₱4,131,628

Below is the analysis of movements of corporate accounts:

	2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross Amount				
Balances at beginning of year	**₱15,671,635**	**₱1,116,592**	**₱2,814,618**	**₱19,602,845**
Loan releases	**6,212,718**	**–**	**19,323**	**6,232,041**
Payments/foreclosures	**(1,933,261)**	**(257,890)**	**(166,745)**	**(2,357,896)**
Transfers to stage 2	**(49,597)**	**50,523**	**(926)**	**–**
Transfers to stage 3	**–**	**(440,198)**	**440,198**	**–**
Balances at end of year	**19,901,495**	**469,027**	**3,106,468**	**23,476,990**
Allowance for Impairment and Credit Losses				
Balances at beginning of year	**299,531**	**573,122**	**2,175,105**	**3,047,758**
Provisions	**165,509**	**214**	**83,962**	**249,685**
Reversals	**(250,449)**	**(385,949)**	**(132,267)**	**(768,665)**
Transfers to stage 2	**–**	**1**	**(1)**	**–**
Transfers to stage 3	**–**	**(187,149)**	**187,149**	**–**
Balances at end of year	**214,591**	**239**	**2,313,948**	**2,528,778**
Carrying Amount	**₱19,686,904**	**₱468,788**	**₱792,520**	**₱20,948,212**

	2022			
	Stage 1	Stage 2	Stage 3	Total
Gross Amount				
Balances at beginning of year	₱16,518,554	₱1,509,990	₱3,017,899	₱21,046,443
Loan releases	3,803,093	–	–	3,803,093
Payments/foreclosures	(4,617,688)	(484,446)	(144,557)	(5,246,691)
Transfers to stage 1	594,418	(509,224)	(85,194)	–
Transfers to stage 2	(626,742)	661,574	(34,832)	–
Transfers to stage 3	–	(61,302)	61,302	–
Balances at end of year	15,671,635	1,116,592	2,814,618	19,602,845
Allowance for Impairment and Credit Losses				
Balances at beginning of year	203,898	807,004	2,163,002	3,173,904
Provisions	172,058	122,203	41,575	335,836
Reversals	(33,398)	(411,965)	(16,619)	(461,982)
Transfers to stage 1	72	(72)	–	–
Transfers to stage 2	(43,099)	55,952	(12,853)	–
Balances at end of year	299,531	573,122	2,175,105	3,047,758
Carrying Amount	₱15,372,104	₱543,470	₱639,513	₱16,555,087

Below is the analysis of movements of individual accounts:

	2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross Amount				
Balances at beginning of year	**₱3,553,706**	**₱534,312**	**₱852,653**	**₱4,940,671**
Loan releases	**787,321**	**9,320**	**2,530**	**799,171**
Payments/foreclosures	**(1,087,404)**	**(65,859)**	**(101,664)**	**(1,254,927)**
Transfers to stage 1	**160,294**	**(160,294)**	**–**	**–**
Transfers to stage 2	**(39,887)**	**41,215**	**(1,328)**	**–**
Transfers to stage 3	**(35,093)**	**(291,085)**	**326,178**	**–**
Balances at end of year	**3,338,937**	**67,609**	**1,078,369**	**4,484,915**
Allowance for Impairment and Credit Losses				
Balances at beginning of year	**89,047**	**356,997**	**615,059**	**1,061,103**
Provisions	**24,334**	**413**	**53,499**	**78,246**
Reversals	**(74,268)**	**(134,225)**	**(339,117)**	**(547,610)**
Transfers to stage 1	**7,814**	**(7,814)**	**–**	**–**
Transfers to stage 2	**(22)**	**22**	**–**	**–**
Transfers to stage 3	**(728)**	**(214,958)**	**215,686**	**–**
Balances at end of year	**46,177**	**435**	**545,127**	**591,739**
Carrying Amount	**₱3,292,760**	**₱67,174**	**₱533,242**	**₱4,108,859**

	2022			
	Stage 1	Stage 2	Stage 3	Total
Gross Amount				
Balances at beginning of year	₱3,301,706	₱547,717	₱931,813	₱4,781,236
Loan releases	1,091,138	27,606	8,000	1,126,744
Payments/foreclosures	(914,761)	(8,653)	(43,895)	(967,309)
Transfers to stage 1	77,890	(36,263)	(41,627)	–
Transfers to stage 2	(2,267)	14,642	(12,375)	–
Transfers to stage 3	–	(10,737)	10,737	–
Balances at end of year	3,553,706	534,312	852,653	4,940,671
Allowance for Impairment and Credit Losses				
Balances at beginning of year	92,930	286,064	572,534	951,528
Provisions	26,150	90,430	192,774	309,354
Reversals	(30,364)	(18,289)	(151,126)	(199,779)
Transfers to stage 1	350	(350)	–	–
Transfers to stage 2	(19)	3,742	(3,723)	–
Transfers to stage 3	–	(4,600)	4,600	–
Balances at end of year	89,047	356,997	615,059	1,061,103
Carrying Amount	₱3,464,659	₱177,315	₱237,594	₱3,879,568

14. **Deposit Liabilities**

This account consists of:

	2023	2022
Savings	**₱106,172,027**	₱99,955,236
Time	**44,634,972**	46,350,563
Demand	**891,141**	766,727
	₱151,698,140	₱147,072,526

As per the BSP Circular No. 1175, *Reduction in Reserve Requirements*, effective on June 30, 2023, the reserve requirement was reduced from 12% to 9.5% for universal banks. The Bank has available reserves consisting of due from BSP amounting to ₱11,579 and ₱17,195 as at December 31, 2023 and 2022, respectively, and is compliant with the reserve requirement (see Note 6).

The annual fixed interest rate of deposit liabilities ranges from 0.05% to 5.25% in 2023, 0.05% to 4.25% in 2022 and 0.05% to 1.75% in 2021.

Interest expense on deposit liabilities account consists of:

	2023	2022	2021
Savings deposits	**₱4,045,979**	₱2,136,202	₱1,404,268
Time deposits	**1,262,205**	602,267	532,697
	₱5,308,184	₱2,738,469	₱1,936,965

15. **Accrued Interest, Taxes and Other Expenses**

This account consists of:

	2023	2022
Accrued expenses	**₱170,273**	₱68,321
Accrued interest	**103,620**	75,298
Other taxes payable	**102,880**	64,770
	₱376,773	₱208,389

16. **Other Liabilities**

This account consists of:

	Note	2023	2022
Accounts payable		**₱102,893**	₱68,346
Statutory liabilities		**85,148**	55,116
Due to BSP		**28,559**	16,775
Outstanding acceptances and customers' liabilities		**27,764**	60,588
Dormant deposit accounts		**17,332**	18,417
Due to the Treasurer of the Philippines		**16,977**	15,911
Provision for impairment losses on commitments and contingent assets	13	**14,257**	14,257
Deposits for safety deposit boxes		**4,299**	5,242
Retirement liability	21	**2,558**	3,300
Security deposit		**1,722**	3,772
Others		**34,329**	7,500
		₱335,838	₱269,224

Accounts payable mainly consist of unpaid charges pertaining to cash card and trading transactions and are normally settled in the following month.

Statutory liabilities pertains to amounts due to various government agencies and are normally settled in the following month.

Due to BSP pertains to accruals for supervision fees are normally settled in the following year.

Outstanding acceptances and customers' liabilities pertain to payables arising from customer trade for which the Bank has given accommodations to the buyer/importer in the form of acceptance credit. These are normally settled within the next reporting year.

Due to the Treasurer of the Philippines pertains to remaining balances of dormant accounts surrendered to the Treasurer of the Philippines. These are normally settled within the next reporting year.

Deposits will be refunded to customers at the end of the agreement/contract.

Others mainly consist of deferred charges.

17. Classification of Assets and Liabilities

The following tables present the carrying amount of assets and liabilities classified as either current or noncurrent as at December 31:

	Note	2023 Current	2023 Noncurrent	2023 Total	2022 Current	2022 Noncurrent	2022 Total
Financial Assets							
Cash and other cash items	6	**₱1,087,157**	**₱–**	**₱1,087,157**	₱1,035,708	₱–	₱1,035,708
Due from BSP	6	**11,579,430**	**–**	**11,579,430**	17,194,897	–	17,194,897
Due from other banks	6	**1,169,066**	**–**	**1,169,066**	1,196,557	–	1,196,557
Securities purchased under resale agreement	7	**2,336,535**	**–**	**2,336,535**	1,381,191	–	1,381,191
Loans and receivables	9	**21,435,559**	**8,408,106**	**29,843,665**	20,283,775	4,922,298	25,206,073
Investment securities:							
Financial assets at FVOCI	8	**277,804**	**19,222,747**	**19,500,551**	1,723,717	20,001,796	21,725,513
Financial assets at amortized cost		**78,098,712**	**29,910,460**	**108,009,172**	63,467,682	36,261,091	99,728,773
Other assets*	12	**1,000**	**43,711**	**44,711**	562	43,411	43,973
		115,985,263	**57,585,024**	**173,570,287**	106,284,089	61,228,596	167,512,685
Less allowance for credit and impairment losses**	13	**3,031,306**	**311,749**	**3,343,055**	3,327,682	846,880	4,174,562
		112,953,957	**57,273,275**	**170,227,232**	102,956,407	60,381,716	163,338,123
Nonfinancial Assets							
Property and equipment	10	**₱–**	**₱4,719,051**	**₱4,719,051**	₱–	₱4,505,643	₱4,505,643
Investment properties	11	**–**	**2,518,408**	**2,518,408**	–	2,242,129	2,242,129
Deferred tax assets – net	26	**–**	**372,194**	**372,194**	–	544,689	544,689
Other assets	12	**290,786**	**95,651**	**386,437**	188,898	155,662	344,560
		290,786	**7,705,304**	**7,996,090**	188,898	7,448,123	7,637,021
Less:							
Accumulated depreciation and amortization	10, 11, 12	**–**	**1,698,077**	**1,698,077**	–	1,549,520	1,549,520
Allowance for impairment losses	11	**–**	**88,607**	**88,607**	–	70,259	70,259
		–	**1,786,684**	**1,786,684**	–	1,619,779	1,619,779
		290,786	**5,918,620**	**6,209,406**	188,898	5,828,344	6,017,242
		₱113,244,743	**₱63,191,895**	**₱176,436,638**	₱103,145,305	₱66,210,060	₱169,355,365
Financial Liabilities							
Deposit liabilities	14	**₱140,454,349**	**₱11,243,791**	**₱151,698,140**	₱100,721,963	₱46,350,563	₱147,072,526
Manager's checks		**155,863**	**–**	**155,863**	142,903	–	142,903
Accrued interest and others expenses	15	**273,893**	**–**	**273,893**	143,619	–	143,619
Lease liabilities	24	**78,154**	**225,786**	**303,940**	51,685	142,185	193,870
Other liabilities***	16	**233,875**	**–**	**233,875**	196,551	–	196,551
		141,196,134	**11,469,577**	**152,665,711**	101,256,721	46,492,748	147,749,469
Nonfinancial Liabilities							
Accrued taxes	15	**102,880**	**–**	**102,880**	64,770	–	64,770
Unearned interest	8	**392,861**	**–**	**392,861**	–	–	–
Other liabilities	16	**99,405**	**2,558**	**101,963**	69,373	3,300	72,673
		595,146	**2,558**	**597,704**	134,143	3,300	137,443
		₱141,791,280	**₱11,472,135**	**₱153,263,415**	₱101,390,864	₱46,496,048	₱147,886,912

**Includes refundable deposits, other investments and RCOCI under "Other assets".*
***Excluding allowance for commitments and contingent assets.*
****Excluding statutory liabilities, provision for impairment losses on commitments and contingent assets and retirement liability.*

18. **Equity**

Capital Stock

Capital stock as at December 31, 2023 and 2022 consists of:

	Number of Shares	Amount
Authorized - ₱10 par value*	2,200,000	₱22,000,000
Issued and outstanding	1,000,000	10,000,000

**Par value is stated in absolute values*

The Bank listed its shares in the PSE on February 17, 1988. As at December 31, 2023 and 2022, 1,000,000 of the Bank's common shares are listed in the PSE.

There are no movements in the number of outstanding shares for all the periods presented. As at December 31, 2023 and 2022, the Bank has 82 stockholders of record.

Reserves

Reserves as at December 31, 2023 and 2022 consist of:

Reserve for contingencies	**₱38,658**	₱38,658
Reserve for self-insurance	**33,522**	33,342
Reserve for trust business	**320**	320
	₱72,500	₱72,320

In compliance with the existing BSP regulations, the Bank should, before the declaration of dividends, carry to retained earnings at least 10% of its income from trust operations since the last preceding dividend declaration until the retained earnings amount to 20% of its authorized capital stock.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Bank's personnel or third parties. Additional reserve amounting to ₱180.0 was recognized in 2023.

Cash Dividends

The Bank has not declared cash dividends in 2023, 2022 and 2021.

19. **Earnings Per Share**

Basic EPS amounts are calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year.

The following reflects the income and share data used in the basic earnings per share computations:

	2023	2022	2021
Net income	**₱1,029,109**	₱745,286	₱826,338
Weighted average of outstanding common shares	**1,000,000**	1,000,000	1,000,000
Earnings per share*	**₱1.03**	₱0.75	₱0.83

**Earnings per share is stated in absolute values*

As at December 31, 2023, 2022 and 2021, there were no outstanding dilutive potential common shares.

20. Other Income

This account consists of:

	2023	2022	2021
Rent income	**₱54,879**	₱41,501	₱54,574
Income from trust operations	**5,540**	3,636	3,026
Dividend income	**4,143**	14,557	15,223
Gain on sale of property and equipment	**164**	43,103	2,237
Others - net	**12,784**	25,257	12,902
	₱77,510	₱128,054	₱87,962

Others consist of loss on derecognition of investment properties, income on pre-terminated time deposits and lease agreements, sale of defective materials and charges for refitting lockset.

21. Compensation and Employee Benefits

This account consists of:

	2023	2022	2021
Salaries and other employee benefits	**₱911,178**	₱827,905	₱778,676
Retirement benefits	**50,705**	54,192	51,067
Statutory benefits	**34,269**	27,641	24,669
Dental, medical and hospitalization	**15,999**	15,869	19,911
	₱1,012,151	₱925,607	₱874,323

Retirement Plan

The Bank has a funded, DC plan for qualifying employees. Under the plan, the employees are entitled to retirement benefits in relation to the proportion of the fair value of the total contributions on their attainment of the retirement age. The assets of the fund are being administered by trustees and are held separately from those of the Bank.

Under RA No. 7641, the Bank also provides for its qualified employees a DB minimum guarantee, which 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. The latest actuarial valuation report is for the year ended December 31, 2023.

The present value of the DB minimum guarantee under RA No. 7641 amounted to ₱2,558 and ₱3,300 as at December 31, 2023 and 2022, respectively (see Note 16). The Bank has no unallocated DC plan assets as at December 31, 2023 and 2022.

The Bank is exposed to the risk of changes in government securities yields, wherein a decrease in government securities yields will increase the projected DB minimum guarantee, although this will be partially offset by an increase in the value of any unallocated plan assets' securities holdings.

Details of the present value of the DB minimum guarantee obligation are as follows:

	Note	**2023**	2022
Balance at beginning of year		**₱3,300**	₱2,418
Interest expense		**172**	118
Current service cost		**90**	64
Remeasurement loss (gain) arising from:			
Experience adjustments		**(980)**	718
Changes in financial assumptions		**(24)**	(18)
Balance at end of year	16	**₱2,558**	₱3,300

Details of the retirement benefits recognized in profit or loss are as follows:

	2023	2022	2021
Interest expense	**₱172**	₱118	₱35
Current service cost	**90**	64	23
Retirement benefits recognized	**262**	182	58
Retirement benefits on DC plan (contributions during the year)	**50,443**	54,010	51,009
	₱50,705	₱54,192	₱51,067

Details of cumulative remeasurement gains on retirement liability follow:

	2023		
	Cumulative Remeasurement Gains	**Deferred Tax** (see Note 26)	**Net**
Balance at beginning of year	**₱9,594**	**₱2,398**	**₱7,196**
Remeasurement gain	**1,004**	**251**	**753**
Balance at end of year	**₱10,598**	**₱2,649**	**₱7,949**

	2022		
	Cumulative Remeasurement Gains	Deferred Tax (see Note 26)	Net
Balance at beginning of year	₱10,294	₱2,573	₱7,721
Remeasurement loss	(700)	(175)	(525)
Balance at end of year	₱9,594	₱2,398	₱7,196

The average duration of the defined benefit obligation at the end of 2023 is one year.

As at December 31, 2023 and 2022, the Bank's undiscounted benefit payments amounting to ₱2,692 and ₱3,415 are expected to be settled within one to five years.

The Bank's assumptions are based on actual historical experience and external data regarding salary and discount rate trends. The Bank considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the estimation of DB obligation.

22. **Occupancy and Equipment-related Expenses**

This account consists of:

	Note	**2023**	2022	2021
Depreciation and amortization	10	**₱194,833**	₱175,035	₱148,379
Rent	24	**13,984**	4,606	27,876
		₱208,817	₱179,641	₱176,255

23. **Other Operating Expenses**

This account consists of:

	Note	**2023**	2022	2021
Taxes and licenses		**₱456,490**	₱287,977	₱231,837
Insurance		**304,491**	301,011	289,201
Security, messengerial and janitorial		**163,711**	168,118	158,663
Information technology		**102,594**	78,646	36,980
Supervision and examination fees		**73,035**	55,664	112,590
Communications, light and water		**59,712**	57,222	50,985
Promotions and business development		**45,733**	31,539	31,189
Litigation-related expense		**26,666**	45,769	27,719
Repairs and maintenance		**21,855**	16,435	14,360
Provision for impairment losses on investment properties	11	**19,380**	40,689	–
Professional fees		**15,382**	27,438	17,101
Transportation and travel		**12,625**	10,502	7,906
Interest expense on lease liabilities	24	**11,307**	9,999	8,961
Supplies expense		**9,589**	8,596	7,999
Documentary stamp tax		**8,581**	18,680	2,993
Others		**50,407**	48,712	39,128
		₱1,381,558	₱1,206,997	₱1,037,612

Others pertain to bank charges, meals and service charges.

24. **Lease Commitments**

The Bank has various non-cancellable lease agreements for its branches for a period of one to 10 years, renewable upon mutual agreement of both parties and subject to annual lease escalation of 5% to 10%.

ROU assets pertain to leased branch premises (see Note 10).

Movements in the lease liabilities are presented below.

	2023	2022
Balance at beginning of year	**₱193,870**	₱180,508
Additions	**178,174**	64,629
Payments	**(73,662)**	(61,266)
Interest expense	**11,307**	9,999
Pre-termination	**(5,749)**	–
	303,940	193,870
Current portion	**78,154**	51,685
Noncurrent portion	**₱225,786**	₱142,185

Lease-related expenses are presented below.

	Note	2023	2022	2021
Amortization of ROU assets	10	**₱65,923**	₱53,950	₱47,383
Rent expense	22	**13,984**	4,606	27,876
Interest on lease liabilities	23	**11,307**	9,999	8,961
		₱91,214	₱68,555	₱84,220

In 2023, the Bank pre-terminated a lease contract resulting to a gain on pre-termination amounting to ₱705.

Rent expense in 2023, 2022 and 2021 pertains to short-term lease on some branches with less than 12 months term at date of transition and variable lease payments.

Undiscounted amounts of future lease commitments are as follows:

	2023	2022
Not later than one year	**₱92,857**	₱59,842
Later than one year but not more than five years	**246,546**	147,155
Later than five years	**3,127**	6,996
	₱342,530	₱213,993

25. Related Party Transactions and Balances

In the ordinary course of business, the Bank can enter into loan and other transactions with its related parties and with certain directors, officers, stockholders, and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. These limits do not apply to loans secured by assets considered as non-risk as defined in the BSP regulations.

In the ordinary course of business, the Bank has transactions with related parties summarized as follows:

	2023		2022	
Nature of Transactions	**Transactions during the Year**	**Outstanding Balances**	Transactions during the Year	Outstanding Balances
Entities under Common Management				
Loans and receivables	**₱1,316,614**	**₱1,316,614**	₱799,002	₱799,002
Interest income	**49,615**	**–**	12,603	–
Investment in equity securities		**1,755**	–	1,342
Deposit liabilities	**311,019**	**752,864**	159,051	441,845
Interest expense	**22,496**	**–**	5,877	–
Rent expense	**40,167**	**–**	12,958	–
Others	**29,156**	**–**	14,282	–
Rent income	**25,667**	**–**	22,677	–
Stockholders				
Loans and receivables	**154,000**	**854,000**	700,000	700,000
Interest income	**58,430**	**–**	32,406	–
Interest				
Loans and receivables	**(13,000)**	**2,364,002**	1,064,002	2,377,002
Interest income	**154,847**	**–**	88,470	–

Terms and Conditions

Loans and Receivables. Loans and receivables from related parties pertain to bills discounted loan with a term of three to five years and bear annual interest rates ranging from 3.50% to 5.00% in 2023, 2022 and 2021.

Investments in Equity Securities. This pertains to investments in quoted equity securities that are classified as financial assets at FVOCI.

Deposit Liabilities. Deposits made by related parties bear interest rates ranging from 0.25% to 3.63% in 2023, 2022 and 2021.

Rent Income. Lease transactions, as a lessor, have term of one to 10 years and renewable upon mutual agreement of the parties.

Rent Expense. Lease transaction, as a lessee, have term of one to two years and renewable upon mutual agreement of the parties.

Other Transactions. Other transactions with entities under common management pertain to services rendered by related parties to the Bank that are included under other operating expenses.

Compensation of Key Management Personnel

The compensation of the key management personnel included under compensation and employee benefits follows:

	2023	2022	2021
Short-term employee benefits	**₱156,093**	₱149,339	₱138,002
Post-employment retirement benefits	**7,288**	24,856	48,696
	₱163,381	₱174,195	₱186,698

<u>Transactions with Retirement Plan</u>

Management of the retirement fund of the Bank is handled by its Trust Unit. The fair values of the fund amounted to ₱1,109,979 and ₱1,085,609 as at December 31, 2023 and 2022, respectively.

26. Income Taxes

Income taxes include corporate income tax and FCDU final taxes, as discussed below, and final tax paid at the rate of 20.00% on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as "Income tax expense" in the statements of income.

Effective in May 2004, RA No. 9294 restored the tax exemption of FCDU and offshore banking units (OBU). Under such law, the income derived by the FCDU from foreign currency transactions with nonresidents, OBU, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBU or other depository banks under the expanded system is subject to 10% final income tax.

Components of income tax expense are as follows:

	2023	2022	2021
Final tax	**₱1,094,614**	₱653,512	₱435,490
Deferred income tax	**172,245**	34,505	119,902
	₱1,266,859	₱688,017	₱555,392

The reconciliation of the income tax expense at statutory tax rate and income tax expense as presented in the statements of income is as follows:

	2023	2022	2021
Income tax expense at statutory tax rate	**₱573,992**	₱358,325	₱345,433
Tax effects of:			
Changes in unrecognized deferred tax assets	**982,328**	34,734	44,555
Interest income subjected to final tax	**(594,315)**	(127,072)	(83,337)
Nondeductible expenses	**358,268**	271,854	272,339
Nontaxable income	**(53,414)**	(416,206)	(494,556)
Expiration of NOLCO	**–**	566,382	354,627
Change in tax rate	**–**	–	116,331
	₱1,266,859	₱688,017	₱555,392

Deferred tax expense (benefit) is recognized as follows:

	2023	2022
Through:		
Profit or loss	**₱172,245**	₱34,505
Other comprehensive income	**(251)**	(175)
	₱171,994	₱34,330

Details of net deferred tax assets are as follows:

	2023	2022
Deferred tax assets on:		
Allowance for credit and impairment losses	**₱485,958**	₱635,069
Excess of lease liabilities over ROU assets	**6,109**	5,610
Retirement liability	**639**	825
	492,706	641,504
Deferred tax liabilities on:		
Unrealized gain on foreclosure of investment properties	**(120,503)**	(96,806)
Others	**(9)**	(9)
	(120,512)	(96,815)
	₱372,194	₱544,689

Net deferred tax assets are recognized as follows:

	Note	2023	2022
Through:			
Profit or loss		**₱374,843**	₱547,087
Other comprehensive income	21	**(2,649)**	(2,398)
		₱372,194	₱544,689

As at December 31, the Bank has not recognized deferred tax assets relating to NOLCO and deductible temporary differences as follows:

	2023	2022
NOLCO	**₱2,765,513**	₱1,731,510
Allowance for impairment losses on:		
Loans and receivables	**341,575**	397,837
Investment properties	**22,152**	17,565
Commitments and contingent assets	**3,564**	3,564
	₱3,132,804	₱2,150,476

Management assessed that it is not probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets on the foregoing NOLCO and deductible temporary differences to be utilized.

Details of NOLCO are as follows:

Year of incurrence	Year of expiry	Amount	Incurred	Balance
2020	2025	₱2,732,975	₱–	₱2,732,975
2021	2026	1,707,575	–	1,707,575
2022	2025	2,485,491	–	2,485,491
2023	2026	–	4,136,009	4,136,009
		₱6,926,041	₱4,136,009	₱11,062,050

Under RA No. 11494, *Bayanihan to Recover as One Act*, and Revenue Regulations No. 25-2020, the Bank is allowed to carry over its net operating losses for the taxable years 2020 and 2021 for the next five consecutive taxable years immediately following the year of such loss.

Under the Corporate Recovery and Tax Incentives for Enterprises ("CREATE") Act, the RCIT of domestic corporations was reduced from 30% to 25% or 20% depending on the amount of total assets or total amount of taxable income. MCIT was changed from 2% to 1% of gross income for a period of three years up to June 30, 2023.

The rate of MCIT reverted to 2% based on gross income starting July 1, 2023. The impact of the revision is accounted for in 2023, if any.

In 2023, the current income tax rates used in preparing the financial statements is 25% RCIT and 1.5% MCIT. In 2022, the current income tax rates used in preparing the financial statements is 25% RCIT and 1% MCIT.

27. **Trust Operations**

Securities and other properties (other than deposits) held by the Bank in fiduciary or agency capacities for clients and beneficiaries are not included in the accompanying statements of financial position since these are not assets of the Bank.

In compliance with the requirements of current banking regulations relative to the Bank's trust functions: (a) government securities included under financial assets at amortized cost in the statements of financial position with a total face value of ₱20,000 as at December 31, 2023 and 2022, are deposited with the BSP as security for the Bank's faithful compliance with its fiduciary obligations; and (b) a certain percentage of the Bank's trust fee income is transferred to retained earnings. This yearly transfer is required until the retained earnings for trust function equals 20.00% of the Bank's authorized share capital.

28. **Commitments and Contingent Assets and Liabilities**

In the normal course of the Bank's operations, there are outstanding commitments and contingent liabilities which are not reflected in the financial statements. Management does not anticipate any material losses resulting from these transactions.

As at December 31, 2023 and 2022, the Bank is involved in legal proceedings mainly relating to uncollected loans and foreclosed properties. Based on the assessment of management in consultation with its legal counsels, the Bank is in a good position to secure favorable judgment in most of these legal cases. Management therefore believes that the outcome of these legal proceedings will not have any material adverse effect on the financial position and performance of the Bank.

The following is a summary of contingencies and commitments of the Bank with the contractual amounts:

	2023	2022
Trust department accounts	**₱1,109,979**	₱1,085,609
Unused commercial letters of credit	**130,207**	214,140
Outward bills for collection	**41,166**	32,052
Late deposits	**17,739**	22,958
Inward bills for collection	**2,327**	12,459
Items held as collateral	**5**	5
	₱1,301,423	₱1,367,223

29. **Segment Information**

A segment is a distinguishable component of the Bank that is engaged either in providing types of services (business segment).

The banking operations for the years ended December 31, 2023, 2022 and 2021 have two major business segments - lending and treasury operations. The foregoing segments contribute the most in the generated income of the Bank. Gross revenues for treasury operations accounted for 76% while the remaining 24% came from lending and allied operations of total revenues for the years ended December 31, 2023, 2022 and 2021. Lending operation is largely limited to commercial loans which accounted for approximately 99% of total loan portfolio for the three years under review.

The table below present financial information on business segments as at and for the years ended December 31, 2023, 2022 and 2021:

	2023		
	Treasury Group	**Lending Group**	**Total**
Segment Revenue			
Interest income from treasury operations	**₱6,764,658**	**₱–**	**₱6,764,658**
Interest expense	**(5,307,160)**	**(1,024)**	**(5,308,184)**
Interest income from lending operations	**–**	**1,685,932**	**1,685,932**
Reversal of credit and impairment losses	**9,852**	**821,546**	**831,398**
Other income	**441,748**	**482,942**	**924,690**
	1,909,098	**2,989,396**	**4,898,494**
Income tax expense	**(1,266,859)**	**–**	**(1,266,859)**
Compensation and employee benefits	**(964,081)**	**(48,070)**	**(1,012,151)**
Segment Operating Profit (Loss)	**(321,842)**	**2,941,326**	**2,619,484**
Unallocated expenses:			
Occupancy and equipment-related expenses			**(208,817)**
Other operating expenses			**(1,381,558)**
			₱1,029,109
Segment Assets	**₱147,686,240**	**₱28,750,398**	**₱176,436,638**

	2022		
	Treasury Group	Lending Group	Total
Segment Revenue			
Interest income from treasury operations	₱4,431,388	₱–	₱4,431,388
Interest expense	(2,737,960)	(509)	(2,738,469)
Interest income from lending operations	–	1,128,101	1,128,101
Reversal of credit and impairment losses	157,393	–	157,393
Other income	597,686	169,449	767,135
	2,448,507	1,297,041	3,745,548
Compensation and employee benefits	(881,308)	(44,299)	(925,607)
Income tax expense	(688,017)	–	(688,017)
Segment Operating Profit	879,182	1,252,742	2,131,924
Unallocated expenses:			
Occupancy and equipment-related expenses			(179,641)
Other operating expenses			(1,206,997)
			₱745,286
Segment Assets	₱146,277,262	₱23,078,103	₱169,355,365

	2021		
	Treasury Group	Lending Group	Total
Segment Revenue			
Interest income from treasury operations	₱3,356,500	₱–	₱3,356,500
Interest expense	(1,936,617)	(348)	(1,936,965)
Interest income from lending operations	–	1,048,431	1,048,431
Provision for credit and impairment losses	(116,483)	(137,946)	(254,429)
Other income	954,826	301,557	1,256,383
	2,258,226	1,211,694	3,469,920
Compensation and employee benefits	(836,643)	(37,680)	(874,323)
Income tax expense	(555,392)	–	(555,392)
Segment Operating Profit	866,191	1,174,014	2,040,205
Unallocated expenses:			
Occupancy and equipment-related expenses			(176,255)
Other operating expenses			(1,037,612)
			₱826,338
Segment Assets	₱148,162,140	₱24,116,937	₱172,279,077

30. **Supplementary Information Required under the BSP Circular No. 1074, Series of 2020, *Amendments to Regulations on Financial Audit of Banks***

The following supplementary information is required by Appendix 55 – Disclosure Requirements to the Audited Financial Statements to Section 174 of the MORB of the BSP, issued through the BSP Circular No. 1074.

A. Financial Performance Indicators

The following basic ratios measure the financial performance of the Bank:

Ratio	Formula	2023	2022
Return on average equity	Net income	**₱1,029,109**	₱745,286
	Divided by: average equity	**22,320,838**	23,765,713
	Return on equity	**0.046:1**	0.031:1
Return on average assets	Net income	**₱1,029,109**	₱745,286
	Divided by: average assets	**172,896,001**	170,817,221
	Return on assets	**0.006:1**	0.004:1
Net interest margin	Net interest income	**₱3,142,406**	₱2,821,020
	Divided by: average interest earning assets	**166,738,335**	165,058,392
	Net profit margin	**0.019:1**	0.017:1

B. Description of Capital Instruments Issued

As at December 31, 2023 and 2022, the Bank has only one class of capital stock, which is common shares.

C. Significant Credit Exposures as to Industry Sector

As at December 31, 2023 and 2022, information on the concentration of loans and receivables from customers (at gross amounts) as to industry follows:

	2023		2022	
	Amount	**Percentage**	Amount	Percentage
Wholesale and retail trade	**₱8,211,171**	**29.37%**	₱7,528,233	30.67%
Real estate, renting and business activities	**6,532,786**	**23.36%**	5,644,173	23.00%
Manufacturing	**3,271,359**	**11.70%**	2,931,285	11.94%
Accommodation and food service activities	**1,952,207**	**6.98%**	2,067,483	8.42%
Construction	**1,697,072**	**6.07%**	1,074,310	4.38%
Agriculture	**1,380,820**	**4.94%**	1,103,833	4.50%
Information and communication	**1,123,796**	**4.02%**	664,949	2.71%
Financial intermediaries	**722,315**	**2.58%**	801,627	3.27%
Education	**504,243**	**1.80%**	506,370	2.06%
Transportation, storage and communication	**483,428**	**1.73%**	278,426	1.13%
Arts, entertainment and recreation	**286,224**	**1.02%**	250,337	1.02%
Health and social work	**251,101**	**0.90%**	258,705	1.05%

(Forward)

	2023		2022	
	Amount	**Percentage**	Amount	Percentage
Administrative and support service activities	**₱126,849**	**0.45%**	₱135,685	0.55%
Water supply, sewerage, waste management & remediation activities	**98,314**	**0.35%**	580	–
Philippine government	**45,000**	**0.16%**	–	–
Professional, scientific and technical activities	**37,656**	**0.13%**	45,000	0.18%
Private households with employed persons	**5,214**	**0.02%**	43,351	0.18%
Mining and quarrying	**2,550**	**0.01%**	2,100	0.01%
Others	**1,229,800**	**4.40%**	1,207,069	4.92%
	₱27,961,905	**100%**	₱24,543,516	100.00%

D. Breakdown of Total Loans Receivables from Customers

<u>As to Security</u>

The following table presents the breakdown of loans receivable from customers by type of security:

	2023		2022	
	Amount	**Percentage**	Amount	Percentage
Secured:				
Real estate mortgage	**₱10,576,564**	**37.82%**	₱9,653,294	39.33%
Hold-out	**1,984,383**	**7.10%**	1,772,214	7.22%
Shares of stock	**1,630,002**	**5.83%**	1,183,832	4.82%
Chattel mortgage	**1,375,202**	**4.92%**	1,844,226	7.51%
Others	**255,789**	**0.91%**	90,000	0.38%
	15,821,940	**56.58%**	14,543,566	59.26%
Unsecured	**12,139,965**	**43.42%**	9,999,950	40.74%
	₱27,961,905	**100.00%**	₱24,543,516	100.00%

<u>As to Status</u>

The following table presents the breakdown of loans receivable from customers as to the status - performing or non-performing loans (NPL):

	2023	2022
Performing:		
Bills discounted loans	**₱12,587,697**	₱12,263,141
Term loans	**7,909,593**	6,391,952
Trust receipts	**2,247,259**	1,690,615
Agrarian reform	**1,681,838**	511,158
	24,426,387	20,856,866
Non-performing:		
Term loans	**2,368,384**	2,075,575
Bills discounted loans	**1,052,638**	106,576
Agrarian reform	**97,288**	1,487,956
Trust receipts	**16,543**	16,543
	3,534,853	3,686,650
	₱27,961,240	₱24,543,516

Loans and receivables are considered non-performing, even without any missed contractual payments, when considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any.

All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics are considered NPL after contractual due date or after they have become past due. Restructured loans are considered NPL. However, if prior to restructuring, the loans were categorized as performing, such classification is retained.

NPLs remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interest is probable and payments of interest and/or principal are received for at least six months or (b) written-off.

Gross NPL ratio of the Bank as at December 31, 2023 and 2022 is 11.67% and 12.45%, respectively. Net NPL ratio of the Bank as at December 31, 2023 and 2022 is 3.77% and 3.62%, respectively.

E. Information on Related Party Loans

In the ordinary course of business, the Bank has loans and other transactions with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under the Bank’s policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank.

In the aggregate, DOSRI loans should not exceed the Bank’s equity or 15% of the Bank’s total loan portfolio, whichever is lower. As at December 31, 2023 and 2022, the Bank is in compliance with the regulations.

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

	DOSRI		Related Parties	
	2023	2022	**2023**	2022
Total outstanding DOSRI/related party loans	**₱3,218,002**	₱2,018,000	**₱1,316,614**	₱799,002
Percent of DOSRI/related party loans to total loan portfolio	**10.621**	8.20%	**4.346**	3.25%
Percent of unsecured DOSRI/related party loans to total DOSRI/related party loans	**0.715**	1.26%	**94.64**	–

There were no past due and non-performing loans to DOSRI and related party loans as at December 31, 2023 and 2022.

Based on the requirements of the BSP, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates should not exceed 10% of the bank's net worth, the unsecured portion should not exceed 5% of such net worth. Further, the total outstanding exposures should not exceed 20% of the net worth of the lending bank.

Total interest income on DOSRI accounts amounted to ₱213.3 million, ₱120.9 million and ₱60.8 million in 2023, 2022 and 2021, respectively.

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

F. Aggregate Amount of Secured Liabilities and Assets Pledged as Security

No asset is pledged by the Bank to secure outstanding liabilities as at December 31, 2023 and 2022.

G. Contingencies and Commitments Arising from Off-Balance Sheet Items

The following is a summary of contingencies and commitments of the Bank with the equivalent peso contractual amounts:

	2023	2022
Trust department accounts	**₱1,109,979**	₱1,085,609
Unused commercial letters of credit	**130,207**	214,140
Outward bills for collection	**41,166**	32,052
Late deposits	**17,739**	22,958
Inward bills for collection	**2,327**	12,459
Items held as collateral	**5**	5
	₱1,301,423	₱1,367,223