PSBank
PHILIPPINE SAVINGS BANK
Metrobank Group

May 12, 2023

The Philippine Stock Exchange, Inc.
6/F PSE Tower
5th Avenue corner 28th Street
Bonifacio Global City, Taguig City

Attention: **Ms. Alexandra D. Tom Wong**
Officer-in-charge, Disclosure Department

Subject: **Submission of SEC 17-Q – First Quarter Report 31 March 2023**

Dear Ms. Tom Wong:

Pursuant to the reportorial requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code of the Philippines, we hereby submit a copy of SEC Form 17-Q of Philippine Savings Bank as of March 31, 2023.

We hope that you will find everything in order.

Thank you very much.

Very truly yours,

Leah M. Zamora
Controller
lmzamora@psbank.com.ph / 02-88858208

COVER SHEET

1 5 5 5 2

SEC Registration Number

P H I L I P P I N E S A V I N G S B A N K

(Company's Full Name)

P S B a n k C e n t e r , 7 7 7 P a s e o d e R o x a s c o r n e r S e d e ñ o S t r e e t , M a k a t i C i t y 1 2 2 6

(Business Address: No. Street City/Town/Province)

Leah M. Zamora

(Contact Person)

8845-8888

(Company Telephone Number)

1 2 **3 1**

Month *Day*

(Fiscal Year)

1st Quarter

1 7 - Q

(Form Type)

0 4 **2 7**

Month *Day*

(2023Annual Meeting)

(Secondary License Type, If Applicable)

Market and Securities Regulation Department

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

1,442

Total No. of Stockholders
As of March 31, 2023

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1.	For the quarterly period ended	:	**March 31, 2023**
2.	Commission identification number	:	**15552**
3.	BIR tax identification number	:	**000-663-983-000**
4.	Exact name of registrant as specified in its charter	:	**PHILIPPINE SAVINGS BANK**
5.	Province, country or other jurisdiction of incorporation or organization	:	**City of Manila, Philippines**
6.	Industry classification code	:	[ ] (SEC Use Only)
7.	Address of registrant's principal office	:	**PSBank Center, 777 Paseo de Roxas cor. Sedeño St., Makati City**
8.	Registrant's telephone number, including area code	:	**(632) 8885-8208**
9.	Former name, former address and former fiscal year, if changed since last report	:	**Not applicable**
10.	Securities registered pursuant to Sections 4 and 8 of the RSA:		
	Title of each class	:	**Common Shares**
	Number of shares of common stock outstanding	:	**426,859,416**
	Amount of debt outstanding (Unpaid Subscription)	:	**None**
11.	Are any or all of the securities listed on the Philippine Stock Exchange?	:	**Yes**

12. Indicate by check mark whether the registrant:

(a) Has filed all reports required to be filed by Section 17 of the Securities Regulation Code and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports).

Yes **[x]** No [ ]

(b) Has been subject to such filing requirements for the past 90 days.

Yes **[x]** No [ ]

PART I – FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

Attached are the following:

Unaudited Interim Statements of Condition	Annex 1
Unaudited Interim Statements of Income	Annex 2
Unaudited Interim Statements of Comprehensive Income	Annex 3
Unaudited Interim Statements of Changes in Equity	Annex 4
Unaudited Interim Statements of Cash Flows	Annex 5
Unaudited General Notes to Interim Financial Statements	Annex 6
Unaudited Schedule of Financial Soundness Indicators	Annex 7

ITEM II. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION	Annex 8
Aging of Receivables	Annex 9

PART II – OTHER INFORMATION

1. Control of Registrant

The following stockholders own more than 5% of the total outstanding number of shares issued as of March 31, 2023:

Name of Stockholder	Outstanding Number of Shares	Percent to Total No. of Shares
Metropolitan Bank and Trust Co.[1]	377,279,068	88.38%

[1] *Includes 206,331,982 shares lodged with PCD Nominee Corp.*

As of March 31, 2023, there is no person who holds more than 5% of the Bank's securities lodged with PCD Nominee Corporation.

Minimum Public Ownership
As of March 31, 2023, public ownership of the Bank was at 10.57%. Of the total shares issued, 2.70 million shares or 0.64% represents foreign ownership.

2. Legal Proceedings

The Bank in the course of its operations and in running its business has several legal cases that are filed in its behalf and against it. However, these cases will not give any material effect to its financial status nor would have any material impact in continuing its operations. These cases are part of its daily business activities and consequence of its collection efforts and business dealings with the public.

3. Board Resolutions

All material disclosures of the Bank had been made under SEC 17-C.

SIGNATURE

Pursuant to requirements of the Securities Regulation Code, the registrant has duly caused this report to be signed on behalf by the undersigned thereunto duly authorized.

PHILIPPINE SAVINGS BANK
By:

LEAH M. ZAMORA
Senior Vice President/ Controller

JOSE VICENTE L. ALDE
President

Date: May 11, 2023

REPUBLIC OF THE PHILIPPINES
CITY OF MAKATI) S.S.

SUBSCRIBED AND SWORN TO before me this MAY 1 2 2023 affiant exhibiting to me his identification as follows:

Name	Passport/SSS No.	Date of Issuance	Place of Issuance
Jose Vicente L. Alde		-	-
Leah M. Zamora			

Doc no. 78
Page no. 19
Book no. 41
Series of 2023

ATTY. ROMANO M. DIAZ
Notary Public for Makati City
Until December 31, 2024
Notarial Commission Apt. No. M-120
PTR No. 9565178 MM/ Jan. 3, 2023/Makati City
Roll No. 58123
IBP No. 268090/ Jan. 4, 2023/ PPLM
MCLE Compliance No. VI-0011789/03-02-22
Unit 17-C (17-IJ2), Burgundy Corporate Tower
252 Sen. Gil Puyat ave., Makati City

Philippine Savings Bank

Interim Financial Statements

As of March 31, 2023(Unaudited) and December 31, 2022 (Audited)

and for the quarters ended March 31, 2023 and 2022 (Unaudited)

Annex 1

PHILIPPINE SAVINGS BANK

ITEMI. FINANCIAL STATEMENTS

UNAUDITED INTERIM STATEMENTS OF CONDITION
(With Comparative Audited Figures as at December 31, 2022)

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
ASSETS		
Cash and Other Cash Items	**₱1,750,691,068**	₱1,930,720,274
Due from Bangko Sentral ng Pilipinas	**39,002,216,307**	37,553,243,574
Due from Other Banks	**3,242,528,717**	2,910,493,038
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	**12,344,619,377**	2,669,609,031
Fair Value Through Profit or Loss (FVTPL) Investments	**39,158**	35,875
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)	**45,782,086,012**	69,660,715,882
Investment Securities at Amortized Cost	**30,630,419,673**	30,422,284,704
Loans and Receivables	**112,851,664,984**	109,697,304,552
Investment in a Joint Venture	**864,663,555**	816,284,853
Property and Equipment	**3,121,029,102**	3,126,723,127
Investment Properties	**3,993,453,987**	4,031,471,065
Deferred Tax Assets	**481,614,842**	280,113,544
Goodwill and Intangible Assets	**317,336,775**	333,890,899
Other Assets	**1,377,609,324**	988,118,816
	₱255,759,972,881	₱264,421,009,234

LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities		
Demand	**₱26,278,624,771**	₱26,602,133,863
Savings	**47,012,784,359**	46,933,474,339
Time	**131,442,992,592**	135,158,982,248
Long-term Negotiable Certificates of Deposits	**5,080,319,295**	5,077,602,528
	209,814,721,017	213,772,192,978
Bills Payable	**856,818,992**	1,185,944,975
Bonds Payable	**–**	4,648,449,939
Treasurer's, Cashier's and Manager's Checks	**1,188,970,938**	1,014,225,796
Accrued Taxes, Interest and Other Expenses	**2,234,823,492**	2,506,216,736
Income Tax Payable	**44,604,232**	–
Other Liabilities	**3,800,601,842**	4,154,367,586
	217,940,540,513	227,281,398,010
Equity		
Common Stock	**4,268,594,160**	4,268,594,160
Capital Paid in Excess of Par Value	**11,418,563,257**	11,418,563,257
Surplus Reserves	**1,043,979,211**	1,043,979,211
Surplus	**21,864,230,897**	21,207,490,714
Fair Value Reserves on Financial Assets at FVOCI	**(25,084,411)**	(48,782,635)
Remeasurement Losses on Retirement Plan	**(748,523,773)**	(748,523,773)
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture	**2,877,392**	2,877,392
Equity in Hedge Reserves of a Joint Venture	**(12,144,581)**	(12,144,581)
Cumulative Translation Adjustment	**6,940,216**	7,557,479
	37,819,432,368	37,139,611,224
	₱255,759,972,881	₱264,421,009,234

Annex 2

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENTS OF INCOME

	For the Quarters ended March 31	
	2023	2022
INTEREST INCOME		
Loans and receivables	**₱2,725,358,723**	₱2,531,027,515
Financial assets at FVOCI and investment securities at amortized cost	**1,101,385,674**	369,771,479
Due from Bangko Sentral ng Pilipinas	**479,060,290**	293,443,117
Interbank loans receivable and securities purchased under resale agreements	**93,283,257**	21,664,551
Due from other banks	**5,500,332**	5,749
FVTPL investments	**10,260**	538
	4,404,598,536	3,215,912,949
INTEREST EXPENSE		
Deposit liabilities	**1,409,579,109**	417,224,979
Bonds Payable	**20,731,311**	55,878,832
Lease liability	**19,679,876**	21,399,564
Bills payable	**9,024,538**	76,643
	1,459,014,834	494,580,018
NET INTEREST INCOME	**2,945,583,702**	2,721,332,931
Service fees and commission income	**481,000,104**	444,471,374
Service fees and commission expense	**16,404,342**	9,546,209
NET SERVICE FEES AND COMMISSION INCOME	**464,595,762**	434,925,165
OTHER OPERATING INCOME (CHARGES)		
Gain (loss) on foreclosure and sale of chattel mortgage properties - net	**128,308,036**	175,140,347
Gain on foreclosure and sale of investment properties - net	**70,914,574**	257,796,369
Foreign exchange gain (loss) - net	**6,224,210**	1,047,386
Gain on sale of property and equipment	**1,312,804**	967,578
Trading and securities gains - net	**229,133**	98,344
Miscellaneous	**141,236,511**	272,029,748
	348,225,268	707,079,772
TOTAL OPERATING INCOME	**3,758,404,732**	3,863,337,868
OTHER EXPENSES		
Compensation and fringe benefits	**937,581,673**	892,678,804
Provision for credit and impairment losses	**500,508,429**	345,882,597
Taxes and licenses	**431,974,133**	491,609,707
Depreciation	**191,758,622**	182,846,946
Security, messengerial and janitorial services	**100,444,559**	90,492,800
Occupancy and equipment-related costs	**87,542,824**	77,158,455
Amortization of intangible assets	**27,670,457**	26,534,964
Miscellaneous	**411,778,086**	533,095,001
	2,689,258,783	2,640,299,274
INCOME BEFORE SHARE IN NET INCOME OF A JOINT VENTURE AND INCOME TAX	**1,069,145,949**	1,223,038,594
SHARE IN NET INCOME OF A JOINT VENTURE	**48,378,702**	21,027,212
INCOME BEFORE INCOME TAX	**1,117,524,651**	1,244,065,806
PROVISION FOR (BENEFIT FROM) INCOME TAX		
Current	**342,141,204**	189,397,274
Deferred	**(201,501,298)**	167,015,566
	140,639,906	356,412,840
NET INCOME	**₱976,884,745**	₱887,652,966
Basic/Diluted Earnings Per Share	**₱2.29**	₱2.08

Annex 3

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

	For the Quarters ended March 31	
	2023	2022
NET INCOME	**₱976,884,745**	₱887,652,966
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that recycle to profit or loss in subsequent periods:		
Fair value reserves on debt securities at FVOCI	**23,698,224**	(17,448,215)
Cumulative translation adjustment	**(617,263)**	867,324
	23,080,961	(16,580,891)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱999,965,706**	₱871,072,075

Annex 4

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENTS OF CHANGES IN EQUITY

	Common Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Fair Value Reserves on Financial Assets at FVOCI	Remeasurement Losses on Retirement Plan	Equity in Remeasurement Gains on Retirement Plan of a Joint Venture	Equity in Hedge Reserves of a Joint Venture	Cumulative Translation Adjustment	Total
Balance at January 1, 2023	**₱4,268,594,160**	**₱11,418,563,257**	**₱ 1,043,979,211**	**₱21,207,490,714**	**(₱48,782,635)**	**(₱748,523,773)**	**₱2,877,392**	**(₱12,144,581)**	**₱7,557,479**	**₱37,139,611,224**
Total comprehensive income for the period	**–**	**–**	**–**	**976,884,745**	**23,698,224**	**–**	**–**	**–**	**(617,263)**	**999,965,706**
Cash dividends	**–**	**–**	**–**	**(320,144,562)**	**–**	**–**	**–**	**–**	**–**	**(320,144,562)**
Balance at March 31, 2023 (Unaudited)	**₱4,268,594,160**	**₱11,418,563,257**	**₱1,043,979,211**	**₱21,864,230,897**	**(₱25,084,411)**	**(₱748,523,773)**	**₱2,877,392**	**(₱12,144,581)**	**₱6,940,216**	**₱37,819,432,368**
Balance at January 1, 2022	₱4,268,594,160	₱11,418,563,257	₱1,041,471,464	₱18,812,148,450	₱2,409,890	(₱632,885,484)	₱2,877,392	(₱12,144,581)	(₱6,957,414)	₱34,894,077,134
Total comprehensive income for the period	–	–	–	887,652,966	(17,448,215)	–	–	–	867,324	871,072,075
Cash dividends	–	–	–	(320,144,562)	–	–	–	–	–	(320,144,562)
Balance at March 31, 2022 (Unaudited)	₱4,268,594,160	₱11,418,563,257	₱1,041,471,464	₱19,379,656,854	(₱15,038,325)	(₱632,885,484)	₱2,877,392	(₱12,144,581)	(₱6,090,090)	₱35,445,004,647

Annex 5

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENTS OF CASH FLOWS

	Quarters ended March 31	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,117,524,651**	₱1,244,065,806
Adjustments to reconcile income before income tax to net cash provided by operations:		
Provision for credit and impairment losses	**500,508,430**	345,882,597
Depreciation	**191,758,623**	182,846,949
Amortization of premium (discount) on financial assets at fair value through other comprehensive income and investment securities at amortized cost	**(25,700,417)**	(268,946,573)
Gain on foreclosure and sale of:		
Investment properties	**(70,914,574)**	(257,796,369)
Chattel mortgage properties	**(128,308,036)**	(175,140,347)
Amortization of:		
Intangible assets	**27,670,457**	26,534,964
Debt issuance costs	**1,550,061**	3,616,331
Lease Liabilities	**19,679,876**	21,399,564
Accretion of modified loans	**(19,504,289)**	(27,855,454)
Realized loss (gain) on sale of financial assets at (FVOCI)	**–**	103,524
Share in net income of a joint venture	**(48,378,702)**	(21,027,212)
Fair value loss on fair value through profit or loss investments	**(3,283)**	5,180
Gain on sale of property and equipment	**(1,312,804)**	(967,578)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Fair value through profit or loss investments	**–**	677,061
Loans and receivables	**(4,024,340,390)**	1,112,393,697
Other assets	**(315,289,252)**	(61,526,747)
Increase (decrease) in:		
Deposit liabilities	**(3,957,762,323)**	262,789,791
Treasurer's, cashier's and manager's checks	**174,745,142**	301,394,798
Accrued taxes, interest and other expenses	**(271,394,066)**	(42,200,998)
Other liabilities	**(334,291,708)**	84,017,863
Cash generated from operations	**(7,163,762,604)**	2,730,266,847
Income taxes paid	**(297,536,972)**	(84,094,632)
Net cash provided by operating activities	**(7,461,299,576)**	2,646,172,215
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of:		
Financial assets at FVOCI	**(136,379,993,972)**	(96,730,245,226)
Investment securities at amortized cost	**(890,227,702)**	(2,000,000,000)
Property and equipment	**(63,395,141)**	(17,568,186)
Other intangible assets	**(11,116,332)**	(934,558)
Proceeds from sale/maturities of:		
Financial assets at FVOCI	**161,010,330,000**	117,649,256,051
Investment securities at amortized cost		–
Chattel mortgage properties	**336,944,506**	599,262,227
Investment properties	**171,764,433**	152,879,124
Property and equipment	**23,145,752**	38,118,397
Net cash provided (used) in investing activities	**₱24,197,451,543**	₱19,690,767,829

(Forward)

	For the Quarters ended March 31	
	2023	2022
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of bills payable	**₱198,518,526**	₱232,830,000
Settlement of bills payable	**(527,644,511)**	–
Settlement of bonds payable	**(4,650,000,000)**	–
Payment of lease liabilities	**(140,369,684)**	(160,664,426)
Dividends paid	**(320,144,562)**	(320,144,562)
Net cash provided by financing activities	**(5,439,640,229)**	(247,978,988)
Effect of exchange rate differences	**(46,753)**	28,656
NET DECREASE IN CASH AND CASH EQUIVALENTS	**11,296,464,985**	22,088,989,712
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**1,930,720,274**	2,801,335,279
Due from Bangko Sentral ng Pilipinas	**37,553,243,574**	52,428,888,060
Due from other banks	**2,925,163,812**	1,368,023,210
Interbank loans receivable and securities purchased under resale agreements	**2,669,609,031**	4,532,877,908
	45,078,736,691	61,131,124,457
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**1,750,691,068**	2,039,751,497
Due from Bangko Sentral ng Pilipinas	**39,002,216,307**	70,951,585,506
Due from other banks	**3,277,674,923**	1,531,046,766
Interbank loans receivable and securities purchased under resale agreements	**12,344,619,377**	8,697,730,400
	₱56,375,201,675	₱83,220,114,169

OPERATIONAL CASH FLOWS FROM INTEREST		
Interest paid	**₱1,575,457,265**	₱509,361,984
Interest received	**4,577,338,606**	3,925,209,546

Annex 6

PHILIPPINE SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philippine Savings Bank (the Bank) was incorporated in the Philippines primarily to engage in savings and mortgage banking. The Bank's shares are listed in the Philippine Stock Exchange (PSE). The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions that mainly serve the retail and consumer markets. On September 6, 1991, the Bank was authorized to perform trust functions.

As of March 31, 2023 and December 31, 2022, the Bank had 250 branches. The Bank had 271 Automated Teller Machines (ATMs) on-site and 288 off-site, bringing its total number of ATMs to 559 as of March 31, 2023 and 557 as of December 31, 2022.

The Bank's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on June 30, 1959. On March 28, 2006, the Board of Directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate term of the Bank, which expired onJune30, 2009, for another 50 years or up to June 30, 2059. This was subsequently approved by stockholders representing at least two-thirds of the outstanding capital stock of the Bank on April 25, 2006. The Amended Articles of Incorporation was approved by the SEC on September 27, 2006.

On April 27, 2010, by majority vote of the BOD and by stockholders representing two-thirds of the outstanding capital stock, the amendment of Article VI of its Amended Articles of Incorporation reducing the number of directors from a maximum of eleven (11) to a maximum of nine (9) has been approved. This was approved by the SEC on August 26, 2010.

On March 24, 2014, the BOD approved Article III of Articles of Incorporation to specify its principal address from Makati City to PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City 1226. The Amended Articles of Incorporation was approved by the SEC on December 22, 2014.

As of March 31, 2023 and December 31, 2022, Metropolitan Bank & Trust Company (MBTC), the Bank's ultimate parent, owned eighty-eight percent (88.38%) of the Bank.

2. Significant Accounting Policies

Basis of Preparation

The accompanying unaudited interim condensed financial statements have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. Accordingly, the interim condensed financial statements do not include all the information and disclosures required in the annual audited financial statements and should be read in conjunction with the Bank's annual audited financial statements as of December 31, 2022.

The condensed financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI) that have been measured at fair value. The unaudited interim condensed financial statements are presented in Philippine Peso (₱), and all values are rounded to the nearest Philippine Peso, except as otherwise indicated.

The accompanying interim condensed financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso. The financial statements of these units are combined after eliminating inter-unit accounts.

Statement of Compliance
The accompanying unaudited interim condensed financial statements as of March 31, 2023 and for the three-month periods ended March 31, 2023 and 2022 have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Seasonality or Cyclicality of Interim Operations
Seasonality or cyclicality of interim operations is not applicable to the Bank's type of business.

Presentation of Financial Statements
The Bank presents its statements of condition in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve (12) months after the statement of condition date (current) and more than 12 months after the statement of condition date (non-current) is presented in Note 14.

Financial assets and financial liabilities are offset and the net amount is reported in the statements of condition only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of solvency or bankruptcy of the Bank and all of the counterparties.

Income and expenses are not offset in the statements of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2022. The Bank has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, adoption of these new standards did not have an impact on the financial statements of the Bank.

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine IFRIC 21, *Levies*, if incurred separately.

  At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

- *Annual Improvements to PFRSs 2018-2020 Cycle*

  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

  - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*

    The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

  - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

    The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

Summary of Significant Accounting Policies

Foreign Currency Translation
The financial statements are presented in PHP, which is the Bank's functional and presentation currency.

The books of accounts of the RBU are maintained in PHP, while those of the FCDU are maintained in USD.

RBU
As at reporting date, foreign currency monetary assets and liabilities of the RBU are translated in PHP based on the Bankers Association of the Philippines (BAP) closing rate prevailing at the statement of condition date, and foreign currency-denominated income and expenses, at the exchange rates as at the dates of the transactions. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against profit or loss in the year in which the rates change. 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 reporting date, the assets and liabilities of the FCDU are translated to the Bank's presentation currency (PHP) at the BAP closing rate prevailing at the statement of condition date, and its income and expenses are translated using the exchange rates as at the dates of the transactions. Exchange differences arising on translation to the presentation currency are taken to the statements of comprehensive income under 'Cumulative translation adjustment'. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statements of comprehensive income is recognized in the statements of income.

Fair Value Measurement
The Bank measures financial instruments, such as FVTPL investments, financial assets at FVOCI and derivative financial instruments, at fair value at each statement of condition date. Also, fair values of financial instruments measured at amortized cost and non-financial assets such as investment properties are disclosed in Note 3.

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price (e.g., an input from a dealer market), the price between the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset and liability and the level of the fair value hierarchy as explained above.

<u>Cash and Cash Equivalents</u>
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements (SPURA) that are convertible to known amounts of cash which have original maturities of three months or less from date of placements and that are subject to an insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents as withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
Date of recognition
Purchases or sales of financial assets, except for derivatives, that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivative financial instruments are recognized on a trade date basis. Deposits, amounts due to banks and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments
All financial instruments are initially measured at fair value. Except for financial assets and financial liabilities at FVTPL, the initial measurement of financial instruments includes transaction costs.

Day 1' difference
Where the transaction price in a non-active market is different from the fair value from 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 the statement of income. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income 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 amount.

<u>Financial Instruments – Classification and Subsequent Measurement</u>
Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the Bank may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. As a second step of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test (SPPI test).

<u>Investments at FVTPL</u>
Financial assets or financial liabilities at FVTPL
Financial assets and financial liabilities at FVTPL include financial assets and financial liabilities held for trading purposes and derivative instruments.

Financial instruments held-for-trading
Financial assets or financial liabilities held for trading (HFT) are recorded in the statements of condition at fair value. Included in this classification are debt securities which have been acquired principally for the purpose of selling in the near term. Changes in fair value relating to the HFT positions are recognized in 'Trading and securities gains (losses) - net'. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in other operating income under 'Miscellaneous' when the right to receive payment has been established.

Derivatives recorded at FVTPL
Derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently re-measured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as cash flow hedges) are taken directly to the statements of income and are included in 'Foreign exchange gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. As of March 31, 2023 and 2022, derivatives consist of Republic of the Philippines (ROP) paired warrants acquired to manage the Bank's foreign currency risk, lower the risk-weighted assets and improve the capital adequacy ratio of the Bank.

Financial assets at FVOCI
Financial assets at FVOCI include debt and equity securities. After initial measurement, investment securities at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of financial assets at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the statements of comprehensive income as 'Fair value reserves on financial assets at FVOCI'.

Debt securities at FVOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVOCI, as well as the impact of restatements on foreign currency-denominated debt securities at FVOCI, is reported in the statements of income. Interest earned on holding debt securities at FVOCI are reported as 'Interest income' using the effective interest method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in the statements of comprehensive income is recognized as 'Trading and securities gain (loss) - net' in the statements of income. The ECL arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision for credit and impairment losses' in the statements of income.

Equity securities designated at FVOCI are those that the Bank made an irrevocable election to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the statements of income as 'Dividends' when the right to receive payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the statements of comprehensive income is reclassified to 'Surplus' or any other appropriate equity account upon disposal. Equity securities at FVOCI are not subject to impairment assessment.

Financial assets at amortized cost
Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. This accounting policy relates to the statements of condition captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA', 'Investment securities at amortized cost' and 'Loans and receivables'.

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less impairment in value. 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 (EIR). The amortization is included in 'Interest income' in the statements of income. Gains and losses are recognized in statements of income when these investments are derecognized or impaired, as well as through the amortization process. The ECL are recognized in the statements of income under 'Provision for credit and impairment losses'. The effects of revaluation on foreign currency denominated investments are recognized in the statements of income.

Other financial liabilities carried at amortized cost
This category represents issued financial instruments or their components, which are not designated at FVTPL and comprises deposit liabilities, bills payable, subordinated notes, treasurer's, cashier's and manager's checks, accrued interest payable, accrued other expenses payable, accounts payable, bills purchased-contra, other credits, dividends payable, deposits for keys-safety deposit boxes (SDB), and overages, where 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 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.

After initial measurement, financial liabilities not qualified and not designated as FVTPL are subsequently measured at amortized cost using the effective interest amortization 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 EIR.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on quoted market prices for similar debt instruments). The residual amount determined after deducting the fair value of the debt component is assigned to the equity component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Financial Guarantees and Undrawn Loan Commitments
The Bank issues financial guarantees and loan commitments. Financial guarantees are those issued by the Bank to creditors as allowed under existing rules and regulations whereby it guarantees third party obligations by signing as guarantor in the contract/agreement. Undrawn loan commitments and letters of credit are commitments under which over the duration of the commitment, the Bank is required to provide a loan with

pre-specified terms to the customer. The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. These contracts are in the scope of the ECL requirements where the Bank estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to financial guarantees and undrawn loan commitments is recognized in 'Miscellaneous liabilities' under 'Other liabilities'.

Derecognition of Financial Assets and Liabilities

Financial assets

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

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

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor is transferred control over the asset, the asset recognized to the extent of the Bank's continuing involvement in the asset. In this case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If a write-off is later recovered, any amounts formerly charged are credited to 'Recovery on charged-off assets' under 'Miscellaneous income' in the statements of income.

Modification of financial assets

The Bank derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The Bank considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the Bank considers the following factors, among others:

- Change in currency
- Introduction of an equity feature
- Change in counterparty
- If the modification results in the asset no longer considered "solely payment for principal and interest"

The Bank also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Bank considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Bank recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for ECL measurement purposes, unless the new financial asset is deemed to be originated as credit impaired (POCI).

Financial liabilities
A financial liability (or a part of a financial liability) is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability or a part of it are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Repurchase and Reverse Repurchase Agreements
Securities sold under agreements to repurchase (SSURA) at a specified future date ('repos') are not derecognized from the statements of condition as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received, including accrued interest, is recognized in the statements of condition as a loan to the Bank under 'Bills payable', reflecting the economic substance of such transaction.

Conversely, SPURA at a specified future date ('reverse repos') are not recognized in the statements of condition. The consideration paid, including accrued interest, is recognized in the statements of condition as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest amortization method.

Reclassification of Financial Assets
The Bank reclassifies its financial assets when there is a change in its business model for managing financial assets. A change in business model occurs when the Bank either begins or ceases to perform an activity that is significant to its operations. The Bank applies the reclassification prospectively from the reclassification date and does not restate any previously recognized gains, losses or interest.

Impairment of Financial Assets
PFRS 9 requires the Bank to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.

Expected credit loss methodology
ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances are now measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that result from all possible default events over the expected life of a financial instrument. In comparison, the previous incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment.

In select circumstances, accounts are individually assessed to ensure that provisions are appropriate and adequate. Manual loan classification reviews additional qualitative factors and prescribes much higher provisions that is based on portfolio historical experience.

Staging assessment
For non-credit-impaired financial instruments:
- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.

- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:
- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

Definition of "default" and "cure"
As a part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikeliness to pay. The Bank's definition of default is aligned with the non-performing loan criteria as prescribed in BSP Circular No. 941. Defaults refer to loans, investments, receivables, or any financial asset, even without any missed contractual payments, that satisfy any of the following conditions (1) impaired under existing accounting standards, (2) classified as doubtful or loss, (3) in litigation, (4) 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 ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Defaults are characterized by financial assets that have objective evidence of impairment at the reporting date and as such classified under Stage 3 ECL treatment.

An instrument is considered to be no longer in default, i.e., to have cured, when it no longer meets any of the default criteria above and there is sufficient evidence to support full collection thru payments received for at least 6 months. Cured accounts are classified under Stage 1 ECL treatment.

Significant increase in credit risk (SICR)
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative models, the borrower or counterparty's credit rating has deteriorated by at least 2 notches. On the other hand, if based on the Bank's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses, then credit risk may have significantly increased as well. Moreover, if contractual payments are more than 30 days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which amortized payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

ECL parameters and methodologies
ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD) with each of the parameter independently modelled.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

EAD is modelled on historical data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

Economic overlays and multiple economic scenarios
The Bank incorporates economic overlays into the measurement of ECL to add a forward-looking risk measure parallel to multiple future macroeconomic atmosphere expectations. A broad range of economic indicators were considered for the economic inputs, such as GDP, GIR change, CPI change, PSE indices, foreign exchange rates and other BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To address this, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Bank's loans and receivables consist of different portfolios, such as consumption, real estate, commercial and personal loans, as well as other receivables (e.g., sales contract receivables). In compliance with PFRS 9, the Bank developed ECL parameters and methodologies for each portfolio, using historical data as well as forward-looking inputs and assumptions.

Restructured loans
In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, changes in maturity date, principal amount from capitalization of accrued interest, terms and conditions from conversion/consolidation or interest rates/repricing cycle that results in an extension in the loan maturity. Distressed restructuring with indications of unlikeliness to pay are categorized as impaired accounts and are initially moved to Stage 3.

The Bank implements a curing policy for restructured accounts compliant with BSP Circular No. 1011. Restructured accounts that have exhibited improvements in creditworthiness may be moved from Stage 3 after a total of one-year probation period. These accounts are transferred to Stage 2 after six months of full payments and consequently transferred to Stage 1 after making the next six months of full payments.

Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR if the original loan has a fixed interest rate and the current repriced rate if the original loan is repriceable. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the applicable interest rate, is recognized in 'Provision for credit and impairment losses' in the statements of income.

Investment in a Joint Venture
A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Bank's investment in its joint venture is accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Bank's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of income reflects the Bank's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Bank's OCI. In addition, when there has been a change recognized directly in the equity of the joint venture, the Bank recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Bank and joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Bank's share of profit or loss of a joint venture is shown on the face of the statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of a joint venture are prepared for the same reporting period as the Bank. The length of the reporting period is the same from period to period. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on its investment in its joint venture. At each statement of condition date, the Bank determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognizes the loss as 'Share in net income of a joint venture' in the statements of income.

Upon loss of joint control over the joint venture, the Bank measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

<u>Property and Equipment</u>
Land is stated at cost less any impairment in value, while depreciable properties, including building, furniture, fixtures and equipment, and leasehold improvements, are stated at cost less accumulated depreciation and any accumulated impairment losses. The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged against profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of the property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	25-50 years
Furniture, fixtures and equipment	3-5 years, depending on the type of assets
Leasehold improvements	5 years or the term of the related lease, whichever is shorter

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year-end to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 asset) is included in the statement of income in the year the asset is derecognized.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset is written down to its recoverable amount.

<u>Leases</u>
Bank as lessee
The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, 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 applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i. *Right-of-use assets*
The Bank recognizes right-of-use assets (included in 'Property and Equipment') at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight line basis over the shorter of the lease term and estimated useful lives of the assets as follows:

Office space and warehouses	1 to 20 years
ATM space	1 to 3 years

ii. *Lease liabilities*
At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expense (unless they are incurred to produce inventories) in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Bank recognizes right-of-use assets and lease liabilities, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities are recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Determining the lease term of contracts with renewal options
The Bank determines 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 any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that are within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Bank's lease liabilities are included in 'Other Liabilities'.

iii. *Short-term leases and leases of low-value assets*
The Bank applies the short-term lease recognition exemption to its short-term leases of office equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of ATMs and office equipment that are considered of low value (i.e., ₱250,000 and below). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Investment Properties
Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value

of such asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. The difference between the fair value of the asset received and the carrying amount of the asset given up is recorded as 'Gain on foreclosure of real assets and other properties acquired' under 'Gain on foreclosure and sale of investment properties'. Foreclosed properties are classified under investment properties from foreclosure date. Expenditures incurred after the investment properties are recognized, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation and impairment in value, except for land which is stated at cost less impairment in value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the investment properties. The estimated useful life of building and condominium units ranges from 10 to 40 years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in 'Gain on foreclosure and sale of investment properties - net' in the year of retirement or disposal.

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 a view to sale.

Chattel Mortgage Properties

Chattel mortgage properties comprise of repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Chattel mortgage properties acquired are initially recognized at fair value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be five years.

Chattel mortgage properties are derecognized when they have either been disposed of or when the chattel mortgage property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on disposal of chattel mortgage properties are recognized in the statements of income under 'Gain (loss) on foreclosure and sale of chattel mortgage properties- net' in the year of disposal.

Intangible Assets

The Bank's intangible assets include branch licenses and computer software. An intangible asset is recognized only when the cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statements of income in the year in which the expenditure is incurred.
The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statements of income under 'Amortization of intangible assets'.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit (CGU) level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statements of income when the asset is derecognized.

Branch licenses
Branch licenses arise from the acquisition of branches from local banks and licenses to operate new branches from the BSP. Branch licenses have indefinite useful lives and are tested for impairment on an annual basis.

Software costs
Software costs are carried at cost less accumulated amortization and any impairment in value. Given the history of rapid changes in technology, computer software are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short. Software costs are amortized on a straight-line basis over five years but maybe shorter depending on the period over which the Bank expects to use the asset.

Impairment of Non-financial Assets
Property and equipment, investment properties and chattel mortgage properties
At each statement of condition date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's 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 CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset 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 assessments of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators.

An impairment loss is charged to operations in the year in which it arises.

An assessment is made at each statement of condition 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 Bank estimates the asset's or CGU's recoverable amount. 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. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been previously recognized. Such reversal is recognized in the statement of income. After such reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGU) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGU) is less than the carrying amount of the CGU (or group of CGU) to which goodwill has been allocated, an impairment loss is recognized immediately in the statements of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Bank performs its annual impairment test of goodwill as at December 31 of each year.

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 of each year, either individually or at the CGU level, as appropriate.

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Investment in a joint venture
After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on the Bank's investment in a joint venture. The Bank determines at each statement of condition date whether there is any objective evidence that the investment a joint venture is impaired. If this is the case, the Bank calculates the amount of impairment as being the difference between the fair value of the investment in the joint venture and the carrying amount and recognizes such amount in the statements of income.

<u>Common Stock</u>
Common stocks are recorded at par. Proceeds in excess of par value are recognized under equity as 'Capital paid in excess of par value' in the statements of condition. Incremental costs incurred which are directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

<u>Revenue Recognition</u>
Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services.

The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Bank concluded that it is acting as a principal in all of its revenue arrangements.

Service fees and commission income
Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include remittance fees, commissions, deposit-related and other credit-related fees.

Income from sale of property and equipment, investment property and chattel mortgage properties
Income from sale of property and equipment, investment property and chattel mortgage properties is included in the profit or loss when the property is derecognized. The gain or loss arising from the derecognition of the property is determined as the difference between the net disposal proceeds and its carrying amount on the date of the transaction.

<u>Revenue outside the scope of PFRS 15</u>
Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as financial assets at FVOCI investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest income'.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in "Impairment of Financial Assets" above), the Bank calculates interest income by applying the EIR 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.

Recovery on charged-off assets
Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery.

Trading and securities gains (losses) - net
Trading and securities gain (loss) represents results arising from trading activities, including all gains and losses from changes in the fair values of FVTPL investments. It also includes gains and losses realized from sale of debt securities at FVOCI.

Realized gains and losses on disposals of FVTPL investments are calculated using weighted average method. It represents the difference between an instrument's initial carrying amount and disposal amount.

Gain on disposal of investments securities at amortized cost
Gain on disposal of investment securities at amortized cost represents gain realized from sale of peso-denominated debt securities measured at amortized cost.

Rental income
Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is recorded in the statements of income under 'Miscellaneous' in other operating income.

Expense Recognition
Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Interest expense
Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statements of income using the EIR of the financial liabilities to which they relate.

Other expense
Expenses encompass losses as well as those expenses that arise in the ordinary course of business of the Bank. Expenses are recognized when incurred.

Goodwill
Goodwill acquired in a business combination is initially measured at cost being the excess of the acquisition cost over the share in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. The Bank's goodwill arose from past purchases of branch business/offices from the Parent Company. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Retirement Cost
Defined benefit plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the statement of condition date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The present value of the defined benefit obligation is calculated annually by an independent actuary. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Bank's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefits
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

<u>Provisions</u>
Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and 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 statement 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 'Interest expense'.

<u>Contingent Liabilities and Contingent Assets</u>
Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

<u>Debt Issue Costs</u>
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments are included in the measurement basis of the underlying debt instruments and are amortized as an adjustment to the interest on the underlying debt instruments using the effective interest method.

<u>Income Taxes</u>
Income tax on profit or loss for the year comprises current and deferred tax. Income tax is determined in accordance with Philippine tax law. Income tax is recognized in the statement of income, except to the extent that it relates to OCI items recognized directly in the statements of comprehensive income.

Current tax
Current income tax is the expected tax payable on the taxable income for the period, using the tax rates enacted at the statement of condition date, together with adjustments to tax payable in respect to prior years.

Deferred tax
Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the statement of condition 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, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax losses and tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses and MCIT can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of condition date 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 reassessed at each statement of condition date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of condition date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

Current income tax and deferred income tax relating to items recognized directly in OCI is also recognized in OCI and not in the statements of income.

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect to stock dividends declared, stock rights exercised and stock splits, if any, declared during the year.

Dividends on Common Shares
Dividends on common shares 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 the statements of condition date are dealt with as subsequent events.

Segment Reporting
The Bank's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6. The Bank's assets generating revenues are all located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

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.

Subsequent Events
Post year-end events that provide additional information about the Bank's position at the statement of condition date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Standards Issued but Not Yet Effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Bank does not expect the future adoption of the said pronouncements to have a significant impact on its financial statements. The Bank intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2023

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

  - Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
  - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

  The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed.

  The amendments are not expected to have a material impact on the Bank.

- Amendments to PAS 8, *Definition of Accounting Estimates*

  The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

  An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted.

  The amendments are not expected to have a material impact on the Bank.

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

  The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

  The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

  An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

  The amendments are not expected to have a material impact on the Bank.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

  The amendments clarify:
  - o That only covenants with which an entity must comply on or before reporting date will affect a liability's classification as current or non-current.
  - o That classification is unaffected by the likelihood that an entity will exercise its deferral right.
  - o That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively.

The amendments are not expected to have a material impact on the Bank.

- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*

  The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Earlier adoption is permitted and that fact must be disclosed.

  The amendments are not expected to have a material impact on the Bank.

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

  The amendments are not expected to have a material impact on the Bank.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The amendments are not expected to have a material impact on the Bank.

3. Fair Value Measurement

Financial Instruments
The following describes the methodologies and assumptions used to determine the fair values of financial instruments:

Cash and other cash items, due from BSP, due from other banks, interbank loans receivable and SPURA, accounts receivable, accrued interest receivable, bills purchased, RCOCI, shortages, and petty cash fund - Carrying amounts approximate fair values due to the relatively short-term maturities of these assets.

Debt investments - 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, using rates currently available for debt on similar terms, credit risk and remaining maturities.

Equity investments - Fair values are based on quoted prices published in markets.

Receivable from customers, sales contract receivables and security deposits- Fair values are estimated using the discounted cash flow methodology, using the Bank's current lending rates for similar types of loans.

Demand deposits, savings deposits, treasurer's, cashier's and manager's checks, accrued interest payable, accounts payable, bills purchased-contra, other credits, deposits for keys-SDB, payment orders payable and overages - Carrying amounts approximate fair values due to either the demand nature or the relatively short-term maturities of these liabilities.

Bills payable, bonds payable and time deposits- Fair values are estimated using the discounted cash flow methodology using the Bank's borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

The inputs used in the fair value measurement based on Level 2 are as follows:

Government securities -interpolated rates based on market rates of benchmark securities as of statement of condition date.

The inputs used in estimating fair values of financial instruments carried at amortized cost and categorized under Level 3 include risk-free rates and applicable risk premium.

Non-financial Assets
Investment properties- Fair values of the investment properties have been determined based on valuations performed by independent external and in-house appraisers using valuation technique with significant inputs that are not based on observable market data (Level 3). The valuation of investment properties was based on the Sales Comparison Approach and considered recent sales of similar or substitute properties in the same areas where the investment properties are located, taking into account the economic conditions prevailing at the time of the valuation. Other factors considered were the location and shape of the properties, environmental issues, development controls such as the height restriction, building coverage and floor area ratio restrictions among others. Other significant unobservable inputs include shape, location, time element, discount and corner influence. The fair value of investment properties is based on its highest and best use, which is its current use.

The following tables summarize the carrying amount and fair values of the Bank's financial instruments and investment properties, analyzed based on the hierarchy described in Note 2 (in thousands):

	March 31, 2023 (Unaudited)				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial Assets					
FVTPL investments					
HFT - government securities	**₱39**	**₱39**	**₱–**	**₱–**	**₱39**
Financial assets at FVOCI					
Government debt securities	**44,145,485**	**43,902,777**	**123,124**	**–**	**44,025,901**
Private debt securities	**1,613,118**	**1,613,118**	**–**	**–**	**1,613,118**
Equity securities	**23,484**	**18,654**	**4,830**		**23,484**
	₱45,782,126	**₱45,534,588**	**₱127,954**	**₱–**	**₱45,662,541**
Assets for which fair values are disclosed:					
Financial Assets					
Investment securities at amortized cost					
Government	**28,426,744**	**19,005,912**	**8,026,466**	**–**	**27,032,378**
Private	**2,203,676**	**2,139,826**	**–**	**–**	**2,139,826**
Loans and receivables					
Receivables from customers					
Consumption loans	**61,579,594**	**–**	**–**	**72,887,762**	**72,887,762**
Real estate loans	**40,635,592**	**–**	**–**	**61,781,202**	**61,781,202**
Commercial loans	**6,439,927**	**–**	**–**	**6,395,723**	**6,395,723**
Personal loans	**1,661,220**	**–**	**–**	**2,348,522**	**2,348,522**
Sales contract receivable	**10,288**	**–**	**–**	**10,436**	**10,436**
Security deposits	**192,063**	**–**	**–**	**222,813**	**222,813**
Non-Financial Assets					
Investment properties	**3,993,454**	**–**	**–**	**6,564,014**	**6,564,014**
	₱145,142,558	**₱21,145,738**	**₱8,026,466**	**₱150,210,472**	**₱179,382,676**
Liabilities for which fair values are disclosed:					
Deposit liabilities – Time	**₱131,442,993**	**₱–**	**₱–**	**₱134,019,886**	**₱134,019,886**
Deposit liabilities – LTNCD	**5,080,319**	**–**	**–**	**5,295,723**	**5,295,723**
Bills payable	**856,819**	**–**	**–**	**1,002,953**	**1,002,953**
	₱137,380,131	**₱–**	**₱–**	**₱140,318,562**	**₱140,318,562**

	December 31, 2022 (Audited)				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVTPL investments					
HFT - government securities	₱36	₱–	₱36	₱–	₱36
Financial assets at FVOCI					
Government debt securities	68,039,301	67,856,881	182,420	–	68,039,301
Private debt securities	1,600,772	1,600,772	–	–	1,600,772
Equity securities	20,643	17,074	3,569	–	20,643
	₱69,660,752	₱69,474,727	₱186,025	₱–	₱69,660,752
Assets for which fair values are disclosed:					
Financial Assets					
Investment securities at amortized cost					
Government	₱27,917,962	₱12,945,470	₱12,937,711	₱–	₱25,883,181
Private	2,504,322	2,424,488	–	–	2,424,488
Loans and receivables					
Receivables from customers					
Consumption loans	57,405,346	–	–	67,601,062	67,601,062
Real estate loans	40,973,925	–	–	65,680,291	65,680,291
Commercial loans	6,211,280	–	–	6,179,603	6,179,603
Personal loans	1,645,314	–	–	2,373,727	2,373,727
Sales contract receivable	10,746	–	–	9,196	9,196
Security deposits	190,888	–	–	264,196	264,196
Non-Financial Assets					
Investment properties	4,031,471	–	–	6,494,927	6,494,927
	₱140,891,254	₱15,369,958	₱12,937,711	₱148,603,002	₱176,910,671
Liabilities for which fair values are disclosed:					
Deposit liabilities - time	₱135,158,982	₱–	₱–	₱137,465,614	₱137,465,614
Deposit liabilities - LTNCD	5,077,603	–	–	5,354,666	5,354,666
Bonds payable	4,648,450	–	–	4,631,342	4,631,342
Bills Payable	1,185,945			1,382,584	1,382,584
	₱146,070,980	₱–	₱–	₱148,834,206	₱148,834,206

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any adjustments for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models. Instruments included in Level 3 include those for which there is currently no active market.

As of March 31, 2023 and December 31, 2022, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

As of March 31, 2023 and 2022, the Bank determined the market value of its warrants to be zero due to the absence of an active market for the Bank's ROP warrants, as evidenced by the unavailability of quoted market prices.

4. Financial Risk Management Policies and Objectives

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

- Credit risk
- Market risk
- Liquidity risk

Organization risk management structure continues to be a top-down organization, with the BOD at the helm of all major initiatives.

Discussed below are the relevant sections on roles and responsibilities from the Risk Oversight Committee (ROC) Charter:

Board of Directors (BOD)
The corporate powers of the Bank are vested in and are exercised by the BOD, who conducts its business and controls its property. The BOD approves broad risk management strategies and policies and ensures that risk management initiatives and activities are consistent with the Bank's overall objectives. The BOD appoints the members of the ROC.

Risk Oversight Committee (ROC)
The ROC is composed of at least three members of the Board, the majority of whom are independent directors including its Chairperson. The ROC Chairperson is not the Chairperson of the Board or of any other committee. Members of the ROC possess a range of expertise and adequate knowledge of the Bank's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur.

The BOD may also appoint non-directors to the ROC as part of the Metrobank Group risk oversight measures. However, only Bank directors shall be considered as voting members of the ROC. Non-voting members are appointed in an advisory capacity.

The ROC oversees the system of limits to discretionary authority that the BOD delegates to the management and ensures that the system remains effective, the limits are observed, and that immediate corrective actions are taken whenever limits are breached.

The ROC meets on a monthly basis and is supported by the Risk Management Office (RMO). In the absence of the ROC Chairman, another Independent Director shall preside. ROC resolutions, which require the concurrence of the majority of its voting members, are presented to the BOD for confirmation.

Risk Management Office (RMO)
The RMO, headed by the Chief Risk and Sustainability Officer, is a function that is independent from executive functions and business line responsibilities, operations and revenue-generating functions. It reports directly to the BOD, through the ROC. The RMO assists the ROC in carrying out its responsibilities by:

- analyzing, communicating, implementing, and maintaining the risk management policies approved by the ROC and the BOD;
- spearheading the regular review of the Bank's risk management policy manual and making or elevating recommendations that enhance the risk management process to the ROC and the BOD, for their approval; and
- ensuring that the risks arising from the Bank's activities are identified, measured, analyzed, reported to and understood by risk takers, management, and the board. The RMO analyzes limit exceptions and recommends enhancements to the limits structure.

The RMO does not assume risk-taking accountability nor does it have approving authority. The RMO's role is to act as liaison and to provide support to the BOD, ROC, the President, management committees, risk takers and other support and control functions on risk-related matters.

The Risk Management Function is responsible for:
- identifying the key risk exposures and assessing and measuring the extent of risk exposures of the Bank and its trust operations;
- monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the Bank's internal capital adequacy assessment on an on-going basis;
- monitoring and assessing decisions to accept particular risks whether these are consistent with BOD-approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
- reporting on a regular basis to Senior Management and the BOD the results of assessment and monitoring.

President
The President is the Chief Executive Officer of the Bank and has the primary responsibility of carrying out the policies and objectives of the BOD. The President exercises the authorities delegated to him by the BOD and may recommend such policies and objectives he deems necessary for the continuing progress of the Bank.

Risk management
The risk management framework aims to maintain a balance between the nature of the Bank's businesses and the risk appetite of the BOD. Accordingly, policies and procedures are reviewed regularly and revised as the organization grows and as financial markets evolve. New policies or proposed changes in current policies are presented to the ROC and the BOD for approval.

a. Credit risk and concentration of assets and liabilities and off-balance sheet items

Credit risk is the risk that a counterparty will not settle its obligations in accordance with the agreed terms.

The Bank's lending business follows credit policy guidelines set by the BOD, ROC and RMO. These policies serve as minimum standards for extending credit. The people engaged in the credit process are required to understand and adhere to these policies.

Product manuals are in place for all loans and deposit products that actually or potentially expose the Bank to all types of risks that may result in financial or reputational losses. They define the product and the risks associated with the product plus the corresponding risk-mitigating controls. They embody the business plans and define the business parameters within which the product or activity is to be performed.

The system of checks around extension of credit includes approval by at least two credit approvers through the Credit Committee (CreCom), Executive Committee (ExCom) or BOD. The ROC reviews the business strategies and ensures that revenue-generating activities are consistent with the risk tolerance and standards of the Bank. The Internal Audit Group conducts regular audit across all functional units. The BOD, through the ExCom, CreCom and ROC, ensure that sound credit policies and practices are followed through all the business segments.

<u>Credit Approval</u>
Credit approval is the documented acceptance of credit risk in the credit proposal or application.

The Bank's credit decision-making for consumer loans utilizes the recommendation of the credit scoring and is performed at the CreCom level appropriate to the size and risk of each transaction, in conformity with corporate policies and procedures in regulating credit risk activities. The Bank's ExCom may approve deviations or exceptions, while the BOD approves material exceptions such as large exposures, loans to directors, officers, stockholders and other related interests (DOSRI) and related party transactions, and loan restructuring.

Credit delegation limits are identified, tracked and reviewed at least annually by the Bank's Head of Credit and Collections together with the Credit Risk Manager.

Borrower Eligibility

The Bank's credit processing commences when a customer expresses his intention to borrow through a credit application. The Bank gathers data on the customer; ensures they are accurate, up-to-date and adequate to meet the minimum regulatory requirements and to render credit decision. These data are used for the intended purpose only and are managed in adherence to the customer information secrecy law.

The customer's credit worthiness, repayment ability and cash flow are established before credit is extended. The Bank independently verifies critical data from the customer, ensuring compliance with Know Your Customer requirements under the anti-money laundering laws. The Bank requires that customer income be derived from legitimate sources and supported with government-accepted statements of income, assets and liabilities.

The Bank ascertains whether the customer is legally capable of entering a credit contract and of providing a charge over any asset presented as collateral for a loan. Guarantors or sureties may be accepted, provided they are a relative, partner, and have financial interest in the transaction, and they pass all credit acceptance criteria applied to the borrower.

Loan Structure

The Bank structures loans for its customers based on the customer's capability to pay, the purpose of the loan, and for a collateralized loan, the collateral's economic life and liquidation value over time.

The Bank establishes debt burden guidelines and minimum income requirements to assess the customer's capacity to pay.

The Bank utilizes credit bureau data, both external and internal, to obtain information on a customer's current commitments and credit history.

The Bank takes into account environmental and social issues when reviewing credit proposals of small businesses and commercial mortgage customers. The Bank ensures that all qualified securities pass through the BOD for approval. Assignments of securities are confirmed and insurance are properly secured.

The Bank uses credit scoring models and decision systems for consumer loans as approved by the BOD. Borrower risk rating model and facility risk rating model, on the other hand, are available for SME loans, and supported with qualitative evaluation. Regular monitoring of all these tools and their performance is carried out to ensure that they remain effective.

Initial loan limits are recommended by the CreCom and ExCom and approved by the BOD. The Bank ensures that secured loans are within ceilings set by local regulators. Succeeding loan availments are based on account performance and customer's credit worthiness.

Credit Management

The Bank maintains credit records and documents on all borrowings and captures transaction details in its loan systems. The credit risk policies and system infrastructure ensure that loans are monitored and managed at all times.

The Bank's Management Information System provides statistics that its business units need to identify opportunities for improving rewards without necessarily sacrificing risk. Statistical data on product, productivity, portfolio, profitability, performance and projection are made available regularly.

The Bank conducts regular loan review through the ROC, with the support of the RMO. The Bank examines its exposures, credit risk ratios, provisions and customer segments. The Bank's unique customer identification and unique group identification methodology enables it to aggregate credit exposures by customer or group of borrowers. Aggregate exposures of at least ₱100.0 million are put on a special monitoring.

The ROC assesses the adequacy of provisions for credit losses regularly. The Bank's automated loan grading system enables the Bank to set up provision per account. The Bank also performs impairment analyses on loans and receivables, whether on an individual or collective basis, in accordance with PFRS 9.

The Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators.

In 2021, the COVID pandemic that stunted the world's economy lingered. Governments and economies have slowly adapted and the numerous efforts to mitigate the outbreak (such as movement restrictions and vaccines) have started to take their roots and created some level of stability. There has also been an observed shift in credit behavior of individuals, as more have accounted for the fluidity of the pandemic situation before engaging in significant credit-taking activities. With economic recovery close, the Bank gradually relaxed its credit standards for collateralized retail loans and rode the upcoming wave. For the existing portfolios, the Bank recalibrated its ECL models with loan payment data generated from the pandemic period to ensure long-run effectivity of the provisioning process.

In February 2022, Russia launched a full-scale invasion of Ukraine. The United Nations reacted by imposing sanctions to Russia. This caused a major disruption in the value chain and kicked start a significant rise in inflation in the year. With the Russia-Ukraine war dragging-on and the United States increasing interest rates, Philippine inflation is uncomfortably high in the near term and the economic outlook for 2023 is unclear. Despite these troubling signals globally, the Bank's asset quality improved compared to 2021 due to the Bank's portfolio management initiatives. The Bank adjusted the provisioning models for the consumer loan portfolio to account for economic uncertainty. This allowed the Bank to thread the economic situation with reasonable comfortability. To optimize the Bank's credit taking activities, the consumer credit scoring models for mortgage and personal loans were redeveloped. These are expected to increase the Bank's loan portfolio without increasing the Bank's risk profile.

b. Market risk

Market risk management covers the areas of trading and interest rate risks. The Bank utilizes various measurement and monitoring tools to ensure that risk-taking activities are managed within instituted market risk parameters. The Bank revalues its trading portfolios on a daily basis and checks the revenue or loss generated by each portfolio in relation to their level of market risk.

The Bank's risk policies and implementing guidelines are regularly reviewed by the Assets and Liabilities Committee (ALCO), ROC and BOD to ensure that these are up-to-date and in line with changes in the economy, environment and regulations. The ROC and the BOD set the comprehensive market risk limit structure and define the parameters of market activities that the Bank can engage in.

Market risk is the risk to earnings and capital arising from changes in the value of traded portfolios of financial instruments (trading market risk) and from movements in interest rates (interest rate risk). The Bank's market risk originates primarily from holding peso and dollar-denominated debt securities. The Bank utilizes Value-at-Risk (VaR) to measure and manage market risk exposure. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given confidence level over a specified holding period.

Trading activities
The Bank's trading portfolios consist of peso- and dollar-denominated debt securities that are marked-to-market daily.

VaR is a statistical measure that calculates the maximum potential loss from a portfolio over a holding period, within a given confidence level. The Bank's current VaR model is based on a historical simulation methodology with a one-day holding period and a 99% confidence level. The Bank establishes limits for trading portfolios and VaR, and comply with regulatory standards. VaR reports are prepared to closely monitor daily profit and loss against loss triggers and stop-loss limits. These are submitted to Treasury Group and RMO on daily basis and to ROC and BOD on monthly basis. When there is a breach in VaR limits, Treasury Group is expected to close or reduce their position and bring it down within the limit unless approval from the President is obtained to retain the same. All breaches are reported to the President for regularization. In addition to the regularization and approval of the President, breaches in VaR limits and special approvals are likewise reported to the ROC and BOD for their information and confirmation.

The Bank performs back testing to validate the VaR model. Results are reported to the ROC and BOD on a monthly basis. Stress testing is also conducted based on historical maximum percentage daily movement and on various ad-hoc rate shock scenarios to estimate potential losses in a crisis situation.

Responsibility for managing the Bank's trading market risk remains with the ROC. With the support of RMO, the ROC recommends to the BOD changes in market risk limits, approving authorities and other activities that need special consideration.

Discussed below are the limitations and assumptions applied by the Bank on its VaR methodology:

a. VaR is a statistical estimate and thus, does not give the precise amount of loss;
b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from a bank's exposure to market risk;
c. Historical simulation does not involve any distributional assumptions, scenarios that are used in computing VaR are limited to those that occurred in the historical sample; and
d. VaR systems are backward-looking. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Major shifts therefore (i.e., an unexpected collapse of the market) are not captured and may inflict losses much bigger than anything the VaR model may have calculated.

The Bank's interest rate VaR follows (in thousands):

	March 31, 2023 (Unaudited)		December 31, 2022 (Audited)	
	Peso	**USD**	Peso	USD
Year-end	**1**	–	1	–
Average	**1**	–	1	–
High	**1**	–	2	–
Low	**1**	–	1	–

Non-trading activities
The Bank follows a prudent policy on managing its assets and liabilities to ensure that fluctuations in interest rates are kept within acceptable limits.

One method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of "gap" analysis. This analysis provides the Bank with a static view of the maturity and repricing characteristics of the positions in its statement of condition. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated repricing dates, whichever is earlier. Items lacking definitive repricing schedule (e.g., current and savings accounts) are assigned to repricing tenor buckets based on analysis of deposit behavioral patterns, past experience and/or expert judgment. The difference in the amount of assets and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The interest rate sensitivity gap report measures interest rate risk by identifying gaps between the repricing dates of assets and liabilities. The Bank's sensitivity gap model calculates the effect of possible rate movements on its interest rate profile.

EaR measures the possible decline in the Bank's net interest income as a result of adverse interest rate movements, given the current repricing profile. It is a tool used to evaluate the sensitivity of the accrual portfolio to changes in interest rates in the adverse direction over the next twelve (12) months. The Bank's EaR limits are based on a percentage of the Bank's projected earnings for the year or capital whichever is lower. The Bank also performs stress-testing to measure the impact of various scenarios based on interest rate volatility and shift in the yield curve. The EaR and stress testing reports are prepared on a monthly basis.

The ALCO is responsible for managing the Bank's structural interest rate exposure. The ALCO's goal is to achieve a desired overall interest rate profile while remaining flexible to interest rate movements and changes in economic conditions. The RMO and ROC review and oversee the Bank's interest rate risks.

The table below demonstrates the sensitivity of equity. Equity sensitivity was computed by calculating mark-to-market changes of debt securities at FVOCI, assuming a parallel shift in the yield curve.

	March 31, 2023 (Unaudited)		December 31, 2022 (Audited)	
	Change in basis points	**Sensitivity of equity**	Change in basis points	Sensitivity of equity
Currency				
PHP	**+10**	**(₱3,899,405)**	+10	(₱5,101,207)
USD	**+10**	**–**	+10	–
Currency				
PHP	**-10**	**3,903,908**	-10	5,106,810
USD	**-10**	**–**	-10	–

The table below demonstrates the sensitivity of net interest income using the EAR model. Net interest income sensitivity was computed by calculating the changes in the banking book gaps assuming a parallel shift in the yield curve.

	March 31, 2023 (Unaudited)		December 31, 2022 (Audited)	
	Change in basis points	**Sensitivity of NII**	Change in basis points	Sensitivity of NII
Currency				
PHP	**+10**	₱5,470,905	+10	₱9,228,360
USD	**+10**	(9,829,053)	+10	(10,587,508)
Currency				
PHP	**-10**	(5,470,905)	-10	(9,228,360)
USD	**-10**	9,829,053	-10	10,587,508

The Bank employs the Delta EVE model to measure the overall change in the economic value of the bank at one point. It reflects the changes in the net present value of its banking book at different interest rate shocks and stress scenarios. ΔEVE is calculated by slotting the notional repricing cash flows arising from rate-sensitive assets and liabilities into pre-defined tenor buckets. The present value of the net repricing cash flows is then calculated using various interest rate scenarios prescribed by Basel, as well as scenarios internally developed by the Bank.

Foreign Currency Risk

Foreign currency risk is the risk of an investment's value changing due to an adverse movement in currency exchange rates. It arises due to a mismatch in the Bank's foreign currency assets and liabilities. The Bank uses BSP-approved Type 3 Derivative License for plain vanilla FX forwards to manage our FX risk against adverse exchange rate movements.

The Bank's policy is to maintain foreign currency exposure within the approved position, stop loss, loss trigger, VaR limits and to remain within existing regulatory guidelines. To compute for VaR, the Bank uses historical simulation model for USD/PHP FX position, with confidence level at 99.00% and a 1 day holding period.

The Bank's VaR for its foreign exchange position for trading and non-trading activities are as follows (in thousands):

	March 31, 2023[1] (Unaudited)	**December 31, 2022[1] (Audited)**
As of year-end	**₱1,417**	₱1,669
Average	**1,422**	857
High	**2,319**	1,669
Low	**671**	263

[1]Using METRISK Historical Simulation VaR

As of March 31, 2023 and December 31, 2022, the Bank is not exposed to significant foreign currency risk.

Liquidity Risk

The Bank's policy on liquidity management emphasizes on three elements of liquidity, namely, cashflow management, ability to borrow in the interbank market, and maintenance of a stock of high-quality liquid assets. These three approaches complement one another with greater weight being given to a particular approach, depending upon the circumstances. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

The main tool that the Bank uses for monitoring its liquidity is the Maximum Cumulative Outflow (MCO) reports, which is also called liquidity gap or maturity matching gap reports. The MCO is a useful tool in measuring and analyzing the Bank's cash flow projections and monitoring liquidity risks.

The MCO is generated by distributing the cash flows of the Bank's assets, liabilities and off-balance sheet items to time bands based on cash flow expectations such as contractual maturity, nature of the account, behavioral patterns and projections on business strategies. The incorporation of behavioral cash flow assumptions and business projections or targets results in a dynamic gap report that realistically captures the behavior of the products and creates a forward-looking cash flow projection.

Cash flows from assets are considered as cash inflows, while cash flows from liabilities are considered cash outflows. The net cash flows are determined for each given time period. If the inflows exceed the outflows, the Bank is said to have a positive liquidity gap or has excess funds for the given time bucket. Conversely, if the outflows exceed the inflows, the Bank is said to have a negative liquidity gap or has funding needs for the given time bucket.

The Bank's Liquidity Contingency Funding Plan (LCFP) projects the Bank's funding position during stress to help evaluate the Bank's funding needs and strategies under various stress conditions.

The Bank discourages dependence on Large Funds Providers (LFPs) and monitors the deposit funding concentrations so that it will not be vulnerable to a substantial drop in deposit level should there be an outflow of large deposits and there are enough high-quality liquid assets to fund LFP withdrawals. ALCO is responsible for managing the liquidity of the Bank while RMO and ROC review and oversee the Bank's overall liquidity risk management.

To mitigate potential liquidity problems caused by unexpected withdrawals of significant deposits, the Bank takes steps to cultivate good business relationships with clients and financial institutions, maintains high level of high-quality liquid assets, monitors the deposit funding concentrations and regularly updates the Liquidity Contingency Funding Plan. The Bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are managed on a daily basis to ensure compliance with the required regulatory ratios

5. Segment Information

The Bank's operating segments are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit that offers different products and serves different markets. The Bank's reportable segments are as follows:

a. Consumer Banking - principally provides consumer-type loans generated by the Home Office;
b. Branch Banking - serves as the Bank's main customer touch point which offers consumer and corporate banking products; and
c. Treasury - principally handles institutional deposit accounts, providing money market, trading and treasury services, as well as managing the Bank's funding operations by use of government securities and placements and acceptances with other banks.

These segments are the bases on which the Bank reports its primary segment information. The Bank evaluates performance on the basis of information about the components of the Bank that senior management uses to make decisions about operating matters. There are no other operating segments than those identified by the Bank as reportable segments. There were no inter-segment revenues and expenses included in the financial information. The Bank has no single customer with revenues from which is 10.00% or more of the Bank's total revenue.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Primary segment information (by business segment) for the quarters ended March 31, 2023 and 2022 and December 31, 2022, as follows (in thousands):

	For the Quarter ended March 31, 2023 (Unaudited)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	**₱1,177,425**	**₱37,450**	**₱1,996,702**	**₱1,193,022**	**₱4,404,599**
Service fees and commission	**150,319**	**5,203**	**325,478**	**-**	**481,000**
Other operating income	**192,319**	**2,840**	**146,613**	**6,453**	**348,225**
Total operating income	**1,520,063**	**45,493**	**2,468,793**	**1,199,475**	**5,233,824**
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	**441,469**	**15,125**	**49,360**	**(5,446)**	**500,508**
Depreciation	**44,068**	**713**	**146,698**	**281**	**191,768**
Amortization of other intangible assets	**9,363**	**255**	**17,875**	**177**	**27,670**
Total non-cash expenses	**494,900**	**116,093**	**213,933**	**(4,988)**	**719,938**
Interest expense	**-**	**-**	**579,895**	**879,119**	**1,459,015**
Service fees and commission expense	**5,127**	**177**	**11,100**	**-**	**16,404**
Subtotal	**5,127**	**177**	**590,995**	**879,119**	**1,475,418**
Compensation and fringe benefits	**235,153**	**17,807**	**675,776**	**8,846**	**937,582**
Taxes and licenses	**93,151**	**2,106**	**119,768**	**216,949**	**431,974**
Occupancy and equipment-related costs	**22,367**	**133**	**64,971**	**72**	**87,543**
Security, messengerial and janitorial services	**29,950**	**450**	**69,979**	**66**	**100,445**
Miscellaneous	**102,104**	**2,777**	**267,288**	**39,608**	**411,777**
Subtotal	**482,725**	**23,273**	**1,197,782**	**265,541**	**1,969,321**
Income (loss) before share in net income of a joint venture and income tax	**₱537,311**	**₱5,950**	**₱466,082**	**₱59,803**	**₱ 1,069,146**
Share in net income of a joint venture					**48,379**
Income before income tax					**1,117,525**
Provision for income tax					**140,640**
Net income					**₱976,885**
Segment assets	**₱81,779,131**	**₱2,980,136**	**₱51,375,412**	**₱118,279,015**	**254,413,694**
Investment in a joint venture					**864,664**
Deferred tax assets					**481,615**
Total assets					**₱255,759,973**
Segment liabilities	**₱1,033,560**	**₱87,955**	**₱140,306,768**	**₱76,512,258**	**₱217,940,541**

	December 31, 2022 (Audited)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱3,205,313	₱652,627	₱7,566,916	₱2,763,017	₱14,187,873
Service fees and commission	528,784	19,267	1,184,791	–	1,732,842
Other operating income	1,366,039	19,538	906,231	(3,620)	2,288,188
Total operating income	5,100,136	691,432	9,657,938	2,759,397	18,208,903
Non-cash expenses					
Provision for credit and impairment losses	1,042,765	137,470	144,753	(18,746)	1,306,242
Depreciation	164,989	2,605	587,289	1,070	755,953
Amortization of intangible assets	34,423	1,039	66,598	791	102,851
Total non-cash expenses	1,242,177	141,114	798,640	(16,885)	2,165,046
Interest expense	–	–	2,238,266	898,957	3,137,223
Service fees and commission expense	15,657	570	35,082	–	51,309
Subtotal	15,657	570	2,273,348	898,957	3,188,532
Compensation and fringe benefits	889,555	69,526	2,645,630	35,843	3,640,554
Taxes and licenses	337,659	17,170	571,952	686,145	1,612,926
Occupancy and equipment-related costs	99,112	801	244,215	440	344,568
Security, messengerial and janitorial services	117,030	2,305	293,133	543	413,011
Miscellaneous	637,139	19,885	1,302,183	171,514	2,130,721
Subtotal	2,080,495	109,687	5,057,113	894,485	8,141,780
Income (loss) before share in net income of a joint venture and income tax	₱1,761,807	₱440,061	₱1,528,837	₱982,840	₱4,713,545
Share in net income of a joint venture					83,418
Income before income tax					4,796,963
Provision for income tax					1,118,535
Net income					₱3,678,428
Segment assets	₱78,301,306	₱3,047,772	₱46,435,918	₱135,539,614	263,324,610
Investment in a joint venture					816,285
Deferred tax assets					280,114
Total assets					₱264,421,009
Segment liabilities	₱1,102,197	₱112,602	₱140,290,782	₱85,775,817	₱227,281,398

	For the Quarter ended March 31, 2022 (Unaudited)				
	Consumer Banking	**Corporate Banking**	**Branch Banking**	**Treasury**	**Total**
Operating income					
Interest income	₱901,923	₱42,442	₱1,021,598	₱1,277,806	₱3,243,769
Service fees and commission	136,981	5,582	301,909	–	444,472
Other operating income	380,729	4,034	293,315	1,146	679,224
Total operating income	1,419,633	52,058	1,616,822	1,278,952	4,367,465
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	355,207	175	(9,499)	–	345,883
Depreciation	38,782	573	143,216	276	182,847
Amortization of other intangible assets	8,995	272	17,002	266	26,535
Total non-cash expenses	402,984	1,020	150,719	542	555,265
Interest expense	–	–	319,064	175,516	494,580
Service fees and commission expense	2,942	120	6,484	–	9,546
Subtotal	2,942	120	325,548	175,516	504,126
Compensation and fringe benefits	214,987	14,665	652,899	10,128	892,679
Taxes and licenses	85,536	2,839	148,109	255,126	491,610
Occupancy and equipment-related costs	25,214	156	51,671	117	77,158
Security, messengerial and janitorial services	25,415	336	64,641	101	90,493
Miscellaneous	178,650	4,259	303,490	46,696	533,095
Subtotal	529,802	22,255	1,220,810	312,168	2,085,035
Income (loss) before share in net income of a joint venture and income tax	483,905	28,663	(80,255)	790,726	1,223,039
Share in net income of a joint venture					21,027
Income before income tax					1,244,066
Provision for income tax					356,413
Net income					887,653
Segment assets	₱79,086,716	₱3,435,140	₱48,982,935	₱130,717,885	262,222,676
Investment in a joint venture					783,954
Deferred tax assets					409,771
Total assets					₱263,416,401
Segment liabilities	₱850,420	₱88,481	₱140,077,433	₱86,955,062	₱227,971,396

6. Investment Securities

Fair Value Through Profit or Loss(FVTPL) Investments
FVTPL investments consist of the following:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Government debt securities	**₱39,158**	₱35,875

Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)
Financial assets at FVOCI consist of the following:

	March 31, 2022 (Unaudited)	December 31, 2022 (Audited)
Debt securities		
Government	**₱44,145,484,583**	₱68,039,300,677
Private	**1,613,117,719**	1,600,771,597
Equity securities		
Quoted	**23,483,710**	20,643,608
	₱45,782,086,012	₱69,660,715,882

As of March 31, 2023 and December 31, 2022, the ECL on debt securities at FVOCI (included in ‘Fair value reserves on financial assets at FVOCI’) amounted to ₱1.2 million and ₱1.0 million, respectively.

Movements in the fair value reserves on financial assets at FVOCI are as follow:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Balance at beginning of year	**(₱48,782,635)**	₱2,409,890
Gain/(Loss) from sale of financial assets at FVOCI realized in profit or loss	**–**	(2,499,021)
Changes in allowance for ECL	**218,795**	(10,324,217)
Fair value gain (loss) recognized in OCI	**23,479,429**	(38,369,287)
Balance at end of year	**(₱25,084,411)**	(₱48,782,635)

Investment Securities at Amortized Cost

Investment securities at amortized cost consist of the following:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Debt securities		
Government	**₱28,435,965,384**	₱27,932,285,174
Private	**2,207,362,276**	2,508,572,566
	30,643,327,660	30,440,857,740
Less allowance for credit losses	**(12,907,987)**	18,573,036
	₱30,630,419,673	₱30,422,284,704

Interest income on investment securities consists of:

	For the Quarters ended March 31	
	2023 (Unaudited)	2022 (Unaudited)
Interest income recognized using EIR		
Financial assets at FVOCI	**₱760,082,914**	₱170,344,667
Investment securities at amortized cost	**341,302,760**	199,426,812
	1,101,385,674	369,771,479
Interest income recognized using nominal interest rates		
FVTPL investments	**10,260**	538
	₱1,101,395,934	₱369,772,017

Trading and securities gains (losses) - net on investment securities consist of:

	For the Quarters ended March 31	
	2023 (Unaudited)	2022 (Unaudited)
FVTPL investments	**₱229,133**	₱5,180
Financial assets at FVOCI	**–**	(103,524)
	₱229,133	(₱98,344)

7. Loans and Receivables

This account consists of:

	March 31, 2023 (Unaudited)	December 31,2022 (Audited)
Receivables from customers		
Consumption loans	**₱65,267,694,455**	₱60,698,139,340
Real estate loans	**41,820,910,989**	42,188,099,978
Commercial loans	**6,715,116,683**	6,479,111,462
Personal loans	**2,196,347,193**	2,223,139,881
	116,000,069,320	111,588,490,661
Less unearned discounts	**165,700,533**	185,272,959
	115,834,368,787	111,403,217,702
Other receivables		
Accrued interest receivable	**₱2,397,485,063**	2,610,954,731
Accounts receivable	**762,989,680**	1,452,343,060
Sales contract receivables	**10,465,346**	10,929,360
	119,005,308,876	115,477,444,853
Less allowance for credit losses	**6,153,643,892**	5,780,140,301
	₱112,851,664,984	₱109,697,304,552

Personal loans comprise deposit collateral loans, employee salary and consumer loan products such as money card, multi-purpose loan and flexi-loan.

As of March 31, 2023 and December 31, 2022, 38.57% and 40.09%, respectively, of the total receivables from customers are subject to periodic interest repricing with average EIR of 8.28% and 8.14%. Remaining receivables earn average annual fixed interest rates of 16.09% and 15.91%.

Interest income on loans and receivables consists of:

	For the Quarters ended March 31	
	2023 (Unaudited)	2022 (Unaudited)
Receivables from customers		
Consumption loans	**₱1,570,334,075**	₱1,384,135,369
Real estate loans	**865,823,009**	871,690,585
Personal loans	**167,186,934**	160,232,372
Commercial loans	**121,942,444**	114,753,468
Other receivables		
Sales contract receivables	**72,261**	215,721
	₱2,725,358,723	₱2,531,027,515

8. Property and Equipment

The composition of and movements in this account follow:

	March 31, 2023 (Unaudited)					
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Right-of-use Assets: Building**	**Total**
Cost						
Balance at beginning of the period, as previously reported	**₱976,443,676**	**₱1,155,310,899**	**₱3,135,342,532**	**₱1,101,893,511**	**₱2,001,043,368**	**₱8,370,033,986**
Acquisitions/Additions	**–**	**465,002**	**58,953,507**	**3,976,633**	**101,201,492**	**164,596,634**
Disposals/Retirement	**–**	**–**	**(14,321,350)**		**(59,665,134)**	**(73,986,484)**
Balance at end of the period	**976,443,676**	**1,155,775,901**	**3,179,974,689**	**1,105,870,144**	**2,042,579,726**	**8,460,644,136**
Accumulated Depreciation						
Balance at beginning of the period	**–**	**598,513,254**	**2,715,701,056**	**1,041,927,841**	**887,162,420**	**5,243,304,571**
Depreciation	**–**	**8,845,940**	**35,156,418**	**6,154,788**	**98,300,565**	**148,457,711**
Disposals	**–**	**–**	**(5,692,070)**	**–**	**(46,455,179)**	**(52,147,249)**
Balance at end of the period	**–**	**607,359,194**	**2,745,165,404**	**1,048,082,629**	**939,007,806**	**5,339,615,033**
Net Book Value	**₱976,443,676**	**₱548,416,706**	**₱434,809,285**	**₱57,787,515**	**₱ 1,103,571,920**	**₱ 3,121,029,102**

	December 31, 2022 (Audited)					
	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Right-of-use Assets: Building	Total
Cost						
Balance at beginning of the period	₱976,443,676	₱1,153,733,962	₱2,950,915,849	₱1,071,161,902	₱1,805,984,812	₱7,958,240,201
Acquisitions/Additions	–	1,570,650	300,248,803	31,019,624	523,368,707	856,207,784
Disposals/Retirement	–	–	(115,822,120)	(288,016)	(328,310,151)	(444,420,287)
Balance at end of the period	976,443,676	1,155,304,612	3,135,342,532	1,101,893,510	2,001,043,368	8,370,027,698
Accumulated Depreciation						
Balance at beginning of the period	–	562,531,286	2,685,875,690	1,013,331,430	758,045,946	5,019,784,352
Depreciation	–	35,981,968	116,044,932	28,884,426	399,626,555	580,537,881
Disposals	–	–	(86,219,566)	(288,015)	(270,510,081)	(357,017,662)
Balance at end of the period	–	598,513,254	2,715,701,056	1,041,927,841	887,162,420	5,243,304,571
Net Book Value	₱976,443,676	₱556,791,358	₱419,641,476	₱59,965,669	₱1,113,880,948	₱3,126,723,127

Gain on sale of property and equipment amounted to ₱1.3 million and ₱1.0 million for the three-month period ended March 31, 2023 and 2022, respectively.

The details of depreciation under the statements of income follow:

	For the Quarters ended March 31	
	2023 (Unaudited)	2022 (Unaudited)
Right-of-Use-Asset	**₱98,300,565**	₱99,200,425
Property and equipment	**50,157,146**	40,460,894
Chattel mortgage properties	**20,411,005**	21,670,091
Investment properties	**22,889,906**	21,515,536
	₱191,758,622	₱182,846,946

9. Investment Properties

The composition of and movements in this account follow:

	March 31, 2023 (Unaudited)		
	Land	**Building Improvements**	**Total**
Cost			
Balance at beginning of year	**₱1,372,656,554**	**₱3,345,050,793**	**₱4,717,707,347**
Additions	**56,506,549**	**102,635,109**	**159,141,658**
Disposals	**(36,787,442)**	**(148,492,620)**	**(185,280,062)**
Balance at end of year	**1,392,375,661**	**3,299,193,282**	**4,691,568,943**
Accumulated Depreciation			
Balance at beginning of year	**–**	**459,729,369**	**459,729,369**
Depreciation	**–**	**22,889,906**	**22,889,906**
Disposals	**–**	**(15,222,869)**	**(15,222,869)**
Balance at end of year	**–**	**467,396,406**	**467,396,406**
Allowance for Impairment Losses			
Balance at beginning of year	**57,557,772**	**168,949,141**	**226,506,913**
Provisions (reversals) for the year	**1,275,142**	**12,149,517**	**13,424,659**
Disposals		**(9,213,022)**	**(9,213,022)**
Balance at end of year	**58,832,914**	**171,885,636**	**230,718,550**
Net Book Value	**₱1,333,542,747**	**₱2,659,911,240**	**₱3,993,453,987**

	December 31, 2022 (Audited)		
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	₱1,320,449,533	₱2,794,942,497	₱4,115,392,030
Additions	294,903,221	1,143,279,296	1,438,182,517
Disposals	(242,696,242)	(593,170,960)	(835,867,202)
Balance at end of year	1,372,656,512	3,345,050,833	4,717,707,345
Accumulated Depreciation			
Balance at beginning of year	–	451,937,538	451,937,538
Depreciation	–	92,330,079	92,330,079
Disposals	–	(84,538,249)	(84,538,249)
Balance at end of year	–	459,729,368	459,729,368
Allowance for Impairment Losses			
Balance at beginning of year	66,586,922	88,269,464	154,856,386
Provisions (reversals) for the year	(7,684,815)	111,666,863	103,982,048
Disposals	(1,344,334)	(30,987,188)	(32,331,522)
Balance at end of year	57,557,773	168,949,139	226,506,912
Net Book Value	₱1,315,098,739	₱2,716,372,326	₱4,031,471,065

The details of the net book value of investment properties follow:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Real estate properties acquired in settlement of loans and receivables	**₱3,915,573,300**	₱3,952,646,383
Bank premises leased to third parties and held for capital appreciation	**77,880,687**	78,824,682
	₱3,993,453,987	₱4,031,471,065

Gain on foreclosure of investment properties amounted to ₱60.0 million and ₱211.8 million in March 31, 2023 and 2022, respectively. The Bank realized gain on sale of investment properties amounting to ₱10.9 million and ₱46.0 million in March 31, 2023 and 2022, respectively.

10. Other Assets

This account consists of:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Financial assets		
Security deposits	**₱192,063,699**	₱190,888,081
RCOCI	**26,010,009**	12,023,475
Others*	**179,711,805**	438,414
	397,785,513	203,349,970
Non-financial assets		
Chattel mortgage properties - net	**409,523,196**	335,317,543
Net retirement assets	**241,187,039**	203,410,383
Prepayments	**184,100,079**	129,455,531
Documentary stamps on hand	**31,293,804**	28,565,091
Stationeries and supplies on hand	**37,482,844**	37,852,452
Creditable withholding tax	**76,179,751**	50,161,181
Others**	**57,098**	6,665
	979,823,811	784,768,846
	₱1,377,609,324	₱988,118,816

* Others under financial assets comprise petty cash fund, shortages, and other investments
** Others under non-financial assets comprise inter-office float items, sundry debits, deferred charges, postages stamps.

Prepayments represent prepaid insurance, rent, taxes and other prepaid expenses.

Creditable withholding tax (CWT) pertains to the excess credits after applying CWT against income tax payable.

The movements in chattel mortgage properties - net follow:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Cost		
Balance at beginning of year	**₱ 417,400,112**	₱494,437,996
Additions	**395,047,044**	1,978,930,122
Disposals	**(318,188,609)**	(2,055,968,006)
Balance at the end of year	**494,258,547**	417,400,112
Accumulated Depreciation		
Balance at beginning of year	**82,062,955**	85,868,482
Depreciation	**20,411,005**	83,084,760
Disposals	**(17,741,671)**	(86,890,287)
Balance at the end of year	**84,732,289**	82,062,955
Allowance for Impairment Losses		
Balance at beginning of year	**19,614**	49,740
Provision	**110,296**	376,044
Disposals	**(126,848)**	(406,170)
Balance at end of year	**3,062**	19,614
Net Book Value	**₱ 409,523,196**	₱335,317,543

Gain on foreclosure of chattel mortgage properties amounted to ₱91.7 million and ₱168.3 million in March 31, 2023 and 2022, respectively.

The Bank realized gain on sale of chattel mortgage properties amounting to ₱36.6 million and ₱6.9 million in March 31, 2023 and 2022, respectively.

11. Bills Payable and Bonds Payable

Bills Payable

This account consists of the following:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
SSURA	**₱856,818,992**	₱1,185,944,975

These pertains to borrowings from counterparties secured by pledge of government securities with maturities ranging from 32 to 65 days with annual interest rates ranges from 5.00% to 5.12% as of March 31, 2023 and maturities from 48 to 61 days and annual interest rate ranges from 5.05% to 5.09% as of December 31, 2022.

Bonds Payable

This account consists of the following scripless fixed rate bonds:

				Carrying Value	
Issue Date	Maturity Date	Interest Rate	Face Value	**March 31, 2023 (Unaudited)**	December 31,2022 (Audited)
February 4, 2020	February 4, 2023	4.50%	4,650,000,000	**₱–**	₱4,633,613,322

Interest expense incurred on bonds payable amounted to ₱20.7 million and ₱55.9 million for the first quarter ended March 31, 2023 and 2022 respectively.

12. Accrued Taxes, Interest and Other Expenses

This account consists of:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Accrued interest payable	**₱387,837,024**	₱505,829,516
Accrued other taxes and licenses payable	**295,533,768**	266,157,660
Accrued other expenses payable	**1,551,452,700**	1,734,229,560
	₱2,234,823,492	₱2,506,216,736

Accrued other expenses payable consist of:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Litigation	**₱596,229,248**	₱587,480,311
Compensation and fringe benefits	**376,303,671**	392,066,163
Information technology (Note 29)	**161,885,832**	153,439,962
Security, messengerial and janitorial	**70,380,833**	81,558,182
Repairs and Maintenance	**50,282,060**	62,182,060
Advertising	**45,208,624**	64,536,154
Rental - ATM Offsites	**39,489,751**	39,542,282
ATM maintenance	**18,817,114**	31,025,175
Donations	**16,178,832**	13,355,355
Membership, fees and dues	**3,773,951**	3,773,951
Insurance (Note 29)	**1,151,209**	210,077,209
Miscellaneous	**171,751,575**	95,192,756
	₱1,551,452,700	₱1,734,229,560

Compensation and fringe benefits include salaries and wages, as well as medical, dental and hospitalization benefits.

13. Other Liabilities

This account consists of:

Financial liabilities	**March 31, 2023 (Unaudited)**	December 31, 2022 (Audited)
Accounts payable	**₱1,629,863,778**	₱2,087,042,216
Lease liabilities	**1,303,443,579**	1,322,931,895
Other credits	**167,076,399**	169,110,872

Financial liabilities	**March 31, 2023 (Unaudited)**	December 31, 2022 (Audited)
Due to BSP	**18,321,000**	–
Overages	**3,444,886**	3,226,191
Deposit for keys - SDB	**746,270**	749,270
	3,122,895,912	3,583,060,444
Non-financial liabilities		
Provision on undrawn portion of committed credit lines	**148,936,274**	208,286,386
Withholding taxes payable	**147,754,050**	120,565,498
Sundry credits	**301,298,901**	149,968,105
Due to the Treasurer of the Philippines	**20,417,050**	20,417,050
SSS, Medicare, ECP and HDMF premium payable	**19,744,392**	17,276,348
Miscellaneous	**39,555,263**	54,793,755
	677,705,930	571,307,142
Total	**₱3,800,601,842**	₱4,154,367,586

Accounts payable includes payable to suppliers and service providers, and loan payments and other charges received from customers in advance.

Other credits represent long-outstanding unclaimed cashier's checks.

Sundry credits represent various items or transactions which cannot be classified immediately under any credit account and subsequently classified to proper credit accounts the following month.

14. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from the statement of condition dates (in thousands):

	March 31, 2023 (Unaudited)			December 31, 2022 (Audited)		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱1,750,691**	**₱–**	**₱1,750,691**	₱1,930,720	₱–	₱1,930,720
Due from BSP - gross	**39,002,216**	**–**	**39,002,216**	37,553,244	–	37,553,244
Due from other banks - gross	**3,277,675**	**–**	**3,277,675**	2,925,164	–	2,925,164
Interbank loans receivable and SPURA – gross	**12,344,619**	**–**	**12,344,619**	2,669,609	–	2,669,609
FVTPL investments	**39**	**–**	**39**	36	–	36
Financial assets at FVOCI	**45,546,458**	**235,628**	**45,782,086**	68,059,345	1,601,371	69,660,716
Investment securities at amortized cost	**1,696,495**	**28,946,833**	**30,643,328**	1,040,479	29,400,379	30,440,858
Loans and receivables - gross	**12,999,204**	**106,171,806**	**119,171,010**	14,010,117	101,652,600	115,662,717
Other assets - gross*	**243,476**	**153,877**	**397,353**	31,219	172,131	203,350
	116,860,873	**135,508,144**	**252,369,017**	128,219,933	132,826,481	261,046,414
Nonfinancial Assets						
Investment in a joint venture	**–**	**864,664**	**864,664**	–	816,285	816,285
Property and equipment - gross	**–**	**8,460,644**	**8,460,644**	–	8,370,034	8,370,034
Investment properties - gross	**–**	**4,691,569**	**4,691,569**	–	4,717,707	4,717,707
Deferred tax assets	**–**	**481,615**	**481,615**	–	280,114	280,114
Goodwill and intangible assets	**–**	**1,761,180**	**1,761,180**	–	436,742	436,742
Other assets - gross**	**329,546**	**727,811**	**1,057,357**	246,041	620,804	866,845
	329,546	**16,987,483**	**17,317,029**	246,041	15,241,686	15,487,727
Less: Allowance for credit and impairment losses			**6,432,420**			6,039,911
Accumulated depreciation			**7,327,952**			5,887,948
Unearned discounts and capitalized interest			**165,701**			185,273
			13,926,073			12,113,132
			₱255,759,973			₱264,421,009

* Other assets under financial assets comprise security deposits, RCOCI, petty cash fund, shortages and other investments.
** Other assets under nonfinancial assets comprise chattel mortgage properties, net retirement assets, prepayments, documentary stamps on hand, stationeries and supplies on hand, creditable withholding tax, inter-office float items, sundry debits, deferred charges, postages stamps.

	March 31, 2023 (Unaudited)			December 31, 2021 (Audited)		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Liabilities						
Deposit liabilities	**₱194,758,044**	**₱15,056,677**	**₱209,814,721**	₱193,445,791	₱20,326,402	₱213,772,193
Bills payable	**856,819**	**–**	**856,819**	1,185,945	–	1,185,945
Bonds Payable	**–**	**–**	**–**	4,648,450	–	4,648,450
Treasurer's, cashier's and manager's checks	**1,188,971**	**–**	**1,188,971**	1,014,226	–	1,014,226

	March 31, 2023 (Unaudited)			December 31, 2021 (Audited)		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Accrued other expenses payable	**1,551,453**	**–**	**1,551,453**	1,734,229		1,734,229
Accrued interest payable	**387,837**	**–**	**387,837**	505,830	–	505,830
Other liabilities*	**2,217,445**	**907,546**	**3,214,996**	2,654,199	928,861	3,583,060
	200,920,569	**15,964,223**	**216,924,793**	205,188,670	21,255,263	226,443,933
Nonfinancial Liabilities						
Accrued other taxes and licenses payable	**295,534**	**–**	**295,534**	266,158	–	266,158
Income tax payable	**44,604**	**–**	**44,604**	–	–	–
Other liabilities**	**675,610**	**–**	**675,610**	400,922	170,385	571,307
	1,015,748	**–**	**1,015,748**	667,080	170,385	837,465
	201,976,317	**15,964,224**	**217,940,541**	₱205,855,750	₱21,425,648	₱227,281,398

* Other liabilities under financial liabilities comprise accounts payable, lease liabilities, other credits, overages, and deposit for safety deposit box.
** Other liabilities under nonfinancial liabilities comprise provision on undrawn portion of committed credit lines, withholding taxes payable, sundry credits, due to the treasurer of the Philippines, SSS, Medicare, ECP & HDMF premium payable, and miscellaneous liabilities.

15. Equity

Issued Capital

The movement in the Bank's capital stock consists of:

	March 31, 2023		December 31, 2022	
	Shares	**Amount**	Shares	Amount
Authorized common stock - ₱10 par value	**600,000,000**	**₱6,000,000,000**	600,000,000	₱6,000,000,000
Common Stock - Issued and outstanding	**426,859,416**	**₱4,268,594,160**	426,859,416	₱4,268,594,160

The Bank became listed in the Philippine Stock Exchange (PSE) on October 10, 1994. Subsequently, the SEC approved the increase in the capital stock of the Bank. The summarized information on the Bank's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type	Authorized Shares	Par Value
August 16, 1995	Common	300,000,000	₱10
October 8, 1997	Common	425,000,000	₱10
November 20, 2019	Common	600,000,000	₱10

As of March 31, 2023 and December 31, 2022, the total number of stockholders is 1,442 and 1,443, respectively.

On November 28, 2018, the PSE approved the application of the Bank for the listing of additional 142,856,925 common shares to cover the Bank's 1:1.68177 stock rights offering at an offer price of ₱56.0 per share or additional capital of ₱8.0 billion. The Bank successfully completed ₱8.0 billion stock rights offer and shares were listed on January 18, 2019 in the PSE. Capital paid in excess of par related to the offering amounted to ₱6.5 billion, net of transactions costs of ₱101.5 million.

On March 12, 2019, the BOD approved (a) the amendment of the AOI to increase the authorized capital stock from ₱4.25 billion to ₱6.00 billion and (b) the declaration of a 11.42% stock dividend equivalent to 43,750,000 shares amounting to ₱2.57 billion representing the minimum 11.42% subscription and paid-up capital for the increase in the authorized capital stock of the Bank which were ratified by the stockholders representing at least 2/3 of the outstanding capital stock on April 15, 2019. These were approved by BSP on August 8, 2019 and by the SEC on November 20, 2019. Following this, the authorized capital stock of the Bank increased from ₱4.25 billion to ₱6.00 billion consisting of 600.00 million common shares with par value of ₱10.00 per share.

On January 16, 2020, the Bank received the SEC order fixing the record date of the 11.42% stock dividend on January 31, 2020. The 11.42% stock dividend was issued on February 21, 2020 with record date on January 31, 2020. On February 17, 2020, the PSE approved the listing of such stock dividend. Capital paid in excess of par related to the issuance of stock dividend amounted to ₱2.1 billion.

Dividends Paid and Proposed

Details of the Bank's dividend distributions as approved by the Bank's BOD and the BSP follow:

Cash Dividends

Date of declaration	**Per share**	**Total amount**	**Record date**	**Payment date**
January 21, 2021	0.75	320,144,562	February 5, 2021	February 22, 2021
April 26, 2021	0.75	320,144,562	May 11, 2021	May 26, 2021
July 22, 2021	0.75	320,144,562	August 6, 2021	August 23, 2021
October 21, 2021	0.75	320,144,562	November 8, 2021	November 22, 2021
January 17, 2022	0.75	320,144,562	February 2, 2022	February 16, 2022
April 25, 2022	0.75	320,144,562	May 11, 2022	May 21, 2022
July 21, 2022	0.75	320,144,562	August 5, 2022	August 22, 2022
October 20, 2022	0.75	320,144,562	November 7, 2022	November 21, 2022
January 26, 2023	0.75	320,144,562	February 10, 2023	February 27, 2023

Stock Dividends

Date of declaration	**Per share**	**Total amount**	**Record date**	**Payment date**
March 12, 2019	11.42%	₱–	January 31, 2020	February 21, 2020

The Bank's stock price closed at ₱56.95 per share as of March 31, 2023.

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

The following table presents information used to calculate basic EPS:

		For the Quarters ended March 31	
		2023 (Unaudited)	**2022 (Unaudited)**
a.	Net income	**₱976,884,745**	**₱887,652,966**
b.	Weighted average number of common shares for basic EPS	**426,859,416**	**426,859,416**
c.	Basic/Diluted EPS (a/b)	**₱2.29**	**₱2.08**

As of March 31, 2023 and 2022, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

Effect of Existing or Probable Government Regulations

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) as reported to the BSP. This is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis and consolidated basis. Qualifying capital and risk-weighted assets are computed based on BSP regulations.

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.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements,* which states the implementing guidelines on the revised risk-based capital adequacy framework, particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular took effect on January 1, 2014.

On March 29, 2022, the BSP issued Circular No. 1142, Amendments to the Guidelines on the Computation of Minimum Required Capital and Risk-Based Capital Adequacy Ratio, which provides amended guidelines on the computation of the minimum required capital and the risk-based capital adequacy ratio.

The Bank considered BSP regulations, which set out a minimum CET1 ratio of 6.00% and Tier 1 capital ratio of 7.50%, and require capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

Regulatory qualifying capital consists of Tier 1 (going concern) capital, which comprises capital stock, surplus, surplus reserves, net unrealized gains on FVOCI securities, cumulative foreign currency translation and remeasurements of net defined benefit asset. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (gone-concern) capital, which is comprised of the Bank's general loan loss provision and unsecured subordinated debt (refer to Note 17). Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to, outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, and unsecured loans, other credit accommodations, and guarantees granted to subsidiaries and affiliates (net of specific provisions), deferred tax assets, goodwill, other intangible assets and significant minority investments in a joint venture.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures.
As of March 31, 2023 and 2022, the Bank has complied with the requirements of BSP Circular No. 781 and BSP Circular No. 538.

On October 29, 2014, the BSP issued Circular No. 856 which covers the implementing guidelines on the framework for dealing with domestic systemically important banks (DSIBs) in accordance with the Basel III standards. Banks identified as DSIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Compliance with this requirement was phased-in starting January 1, 2017, with full compliance on January 1, 2019. On September 27, 2019, the BSP issued Circular No. 1051 which covers the enhancements in the assessment methodology of D-SIBs. The Bank has complied with this requirement.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. In compliance with this new circular, the Metrobank Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory directives. The Bank follows the Group's ICAAP framework and submits the result of its assessment to the Parent Company. Per BSP Circular No. 869, effective January 31, 2015, submission of an ICAAP document is required by BSP every March 31 of each year. The Bank has complied with this requirement.

The Bank has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis. Refer to Annex 7 for the CAR ratios.

<u>BASEL III Leverage Ratio (BLR)</u>
On June 9, 2015, the BSP issued Circular No. 881 covering the implementing guidelines on the Basel III Leverage Ratio Framework which is designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.0 percent. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018 under BSP Circular No. 990 issued on January 22, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

The Basel III Leverage Ratio is designed to act as a supplementary measure to the risk-based capital requirements. The Basel III Leverage Ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as percentage. Capital measure is the Tier 1 capital. Exposure measure is the sum of on-balance sheet exposures, derivative exposures, security financing exposures and off-balance sheet items. The leverage ratio shall not be less than 5.0 percent computed on both solo (head office plus branches) and consolidated bases (including subsidiary financial allied undertakings but excluding insurance companies).

As of March 31, 2023 and December 31, 2022, the Bank maintains these ratios above minimum requirements as shown in the table below (in millions):

		March 31, 2023	December 31, 2022
A.	Capital Measure	**₱33,905**	₱33,521
B.	Exposure Measure	**254,372**	263,482
C.	Basel III Leverage Ratio (A/B)	**13.33%**	12.72%

Summary Comparison of Accounting Assets and Common Disclosure vs. Leverage Ratio Exposures as of March 31, 2023 and December 31, 2022 are shown in the table below (in millions):

Summary Comparison of Accounting Assets vs. Leverage Ratio Exposure	**March 31, 2023**	December 31, 2022	**Common Disclosure vs. Leverage Ratio Exposure**	**March 31, 2023**	December 31, 2022
Total consolidated assets	**₱254,286**	₱263,377	On-balance sheet exposures	**₱241,990**	₱260,794
Adjustments for derivative financial instruments		–	Derivative exposures		–
Adjustments for securities financial transactions	**–**	–	Securities financing transaction exposures	**12,345**	2,651
Adjustments for off-balance sheet items	**36**	37	Other off-balance sheet exposures	**36**	37
Other adjustments	**49**	68	Tier 1 capital	**33,905**	33,521
			Total Leverage Ratio exposures	**₱254,372**	₱263,482
Leverage Ratio Exposures	**₱254,372**	₱263,482	**Basel III Leverage Ratio**	**13.33%**	12.72%

<u>Liquidity Coverage Ratio</u>
On March 10, 2016 and February 8, 2018, the BSP issued Circular Nos. 905 and 996, respectively, which include guidelines on LCR, and LCR disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets (HQLAs) to total net cash outflows. To promote the short-term resilience of the liquidity risk profile of the Bank, it shall maintain an adequate stock of unencumbered HQLAs that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs under stressed conditions. The stock of liquid assets should enable the Bank to withstand significant liquidity shocks for at least thirty (30) calendar days, which would give time for corrective actions to be taken by the Bank's management and/or the BSP.

On March 15, 2019, the BSP issued Circular No. 1035 which approved the: (1) extension of the observation period of the minimum Basel III LCR requirement to December 31, 2019 for subsidiary banks and quasi-banks (QBs) of universal and commercial banks (U/KBs), (2) adoption of a seventy percent (70%) LCR floor for subsidiary banks and QBs during the observation period, (3) minimum requirement of one hundred (100%) starting January 1, 2020. As of March 31, 2023 and December 31, 2022, the LCR in single currency as reported to the BSP, is 153.93% and 158.70%, respectively

<u>Net Stable Funding Ratio</u>
On June 6, 2018, the BSP issued Circular No. 1007, covering the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards - NSFR. The NSFR limits overreliance on short-term wholesale funding and promotes enhanced assessment of funding risk across all on- and off-balance sheet accounts. The NSFR complements the LCR, which promotes short term resilience of the Bank's liquidity profile. The covered bank shall maintain an NSFR of at least 100.0 percent at all times. Compliance with this requirement was phased-in effective July 1, 2018, with full implementation of the minimum NSFR on January 1, 2019.

On March 15, 2019, the BSP issued Circular No. 1034 which approved the extension of the observation period for the Basel III Framework on Liquidity Standards - NSFR for subsidiary banks/quasi-banks.

The implementation of the minimum NSFR shall be phased in to help ensure that the covered banks/QBs can meet the standard through reasonable measures without disrupting credit extension and financial market activities. In order to facilitate compliance, covered banks/QBs shall undergo an observation period before the NSFR becomes a minimum requirement. Subsidiary banks/QBs of U/KBs shall be subject to an NSFR floor of seventy percent (70%) during the observation period. Starting January 1, 2020, the minimum NSFR for subsidiary banks/quasi-banks of universal and commercial banks (UBs/KBs) shall be 100%. As of March 31, 2023 and December 31, 2022, the NSFR as reported to the BSP, were at 147.23% and 148.49%, respectively.

Basel III Countercyclical Capital Buffer

On December 6, 2018, the BSP issued Circular No. 1024 covering the Philippine adoption of the Basel III Countercyclical Capital Buffer (CCyB) which imposed the following capital buffers:

- Capital Conservation buffer (CCB) of two and a half percent (2.5%); and
- Countercyclical capital buffer (CCyB) of zero percent (0%) subject to upward adjustment to a rate determined by the Monetary Board of the BSP when systemic conditions warrant but not to exceed two and a half percent (2.5%). Any increase in the CCyB rate shall be effective 12 months after its announcements. Decreases shall be effective immediately.

The prescribed ratios shall be maintained at all times.

Applicable Tax Regulations

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as ‘Taxes and licenses’ in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax (DST). Income taxes include corporate income tax, further discussed below, and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

On March 26, 2021, RA No. 11534, otherwise known as Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act was signed into law. CREATE reduced the RCIT rate from 30.00% to 25.00% effective July 1, 2020. With the implementation of this Act, the allowable deduction for interest expense was reduced from 33% to 20.00% of the interest income subject to final tax.

The regulations also provide for MCIT of 2.00% (prior to CREATE) and 1.00% from (July 1, 2020 to June 30, 2023 before reverting to 2.00%) on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Bank’s income tax liability and taxable income, respectively, over a three-year period from the year of inception. For the taxable years 2020, 2021 and 2022, the NOLCO incurred can be carried over as a deduction for the next five (5) consecutive taxable years, pursuant to Revenue Regulation (RR) No. 25-2020.

The deferred tax assets and liabilities as of December 31, 2020 were also remeasured using the lower RCIT rate of 25.00%. These reductions were recognized in the 2021 financial statements.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Bank elected to claim itemized expense deductions instead of the OSD in computing for the RCIT in 2022 and 2021.
Current tax regulations also provide for the ceiling on the amount of EAR expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense for a service company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and OBUs is taxed at 15.00% in 2022 and 2021. Under current tax regulations, the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Financial Soundness Indicators

The following ratios measure the financial performance of the Bank:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Return on average equity	**10.43%**	10.21%
Return on average assets	**1.50%**	1.40%
Net interest margin on average earning assets	**4.98%**	4.66%
Liquidity ratio	**58.02%**	62.41%
Debt-to-equity ratio	**5:76:1**	6.11:1
Asset-to-equity ratio	**6:76:1**	7.11:1
Interest rate coverage ratio	**1:77:1**	2.52:1

16. Miscellaneous Income

This account consists of:

	For the Quarters ended March 31	
	2023 (Unaudited)	2022 (Unaudited)
Insurance commission income	**₱ 15,150,086**	₱140,728,046
Recovery of charged-off assets	**70,604,600**	70,566,173
Rental income	**11,475,200**	11,132,175
Others	**44,006,625**	49,603,354
	₱141,236,511	₱272,029,748

Rental income arises from the lease of properties and safety deposit boxes of the Bank.

Other miscellaneous income includes renewal fees, checkbook charges, break funding cost and other miscellaneous income. In 2020, the Bank recorded modification loss amounting to ₱508.8 million. Subsequent accretion of modified loans amounted to ₱19.5 million and ₱27.9 million in March 31, 2023 and 2022, respectively

17. Interest Expense on Deposit Liabilities and Miscellaneous Expenses

Interest expense on deposit liabilities consists of:

	For the Quarters ended March 31	
	2023 (Unaudited)	2022 (Unaudited)
Time	**₱ 1,319,656,654**	₱297,071,521
LTNCD	**66,273,017**	96,050,994
Demand	**12,687,904**	13,273,928
Savings	**10,961,534**	10,828,537
	₱ 1,409,579,109	₱417,224,979

Miscellaneous expenses account consists of:

	For the Quarters ended March 31	
	2023 (Unaudited)	2022 (Unaudited)
Insurance	**₱104,003,003**	₱124,345,051
Information technology	**103,276,754**	87,988,732
Litigation	**39,636,227**	140,917,931
Communications	**34,115,091**	40,194,685
Fines, penalties and other charges	**25,157,905**	50,602,495
Repairs and maintenance	**22,243,369**	26,666,266
Supervision and examination fees	**18,321,000**	20,970,575
Stationery and supplies	**14,579,408**	10,848,956
Transportation and traveling	**13,216,450**	12,828,405
Advertising	**12,901,569**	2,934,930
Management and professional fees	**8,700,963**	8,612,903
Banking activities expenses	**5,754,082**	731,337

	For the Quarters ended March 31	
	2023	2022
	(Unaudited)	(Unaudited)
Donations and charitable contributions	**3,159,977**	2,011,051
Training and seminars	**2,755,106**	1,122,579
Membership fees and dues	**1,316,691**	706,975
Others	**2,640,491**	1,612,130
	₱411,778,086	₱533,095,001

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation (PDIC) amounting to million ₱103.1 million and ₱107.9 million in March 31, 2023 and 2022, respectively.

Other expenses include entertainment, amusement and recreation (EAR), rewards and incentives, meeting allowance, sponsorship expenses, home free loan expenses, appraisal fees and notarial fees.

18. 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. The Bank's related parties are as follows:

- Bank's Directors, Officers, Stockholders and their Related Interests (DOSRI) as defined per BSP's existing DOSRI rules and regulations;
- Close Family Members (i.e., 2nd degree relatives) of the Bank's Directors, Officers with rank of SVP and up, and Individual Substantial Stockholders;
- Bank's Subsidiaries and Affiliates as defined per BSP's existing rules and regulations on lending to subsidiaries and affiliates;
- Any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Subsidiaries, Affiliates and Special Purpose Entities (SPEs) of any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Corresponding Persons in Affiliated Companies as defined in the Bank's Related Party Transaction (RPT) Policy; and
- Any natural person or juridical entity whose interest may pose potential conflict with the Bank's interest.

The Bank has several business relationships with related parties. The terms of the transactions with such parties are listed below on substantially the same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties, and are usually settled in cash. These transactions also did not involve more than the nominal risk of collectability or present other unfavorable conditions.

Transactions with the Retirement Plan

On December 20, 2012, the SEC issued Memorandum Circular No. 12 providing for guidelines on the disclosure of transactions with retirement benefit funds. Under said circular, a reporting entity shall disclose information about any transaction with a related party (retirement fund, in this case) and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank has business relationships with its retirement plan pursuant to which it provides trust and management services to the said plan. The retirement plan of the employees of the Bank is being managed and maintained by the Trust Division of the Bank.

The following table shows the amount of outstanding balances of related party transactions of the Bank with the retirement plan of the employees of the Bank as of March 31, 2023 and December 31, 2022:

		March 31, 2023 (Unaudited)	
		Elements of Transaction	
Related Party	**Nature of Transaction**	**Statement of Condition**	**Statement of Income**
Philippine Savings Bank	Savings Deposit	**₱2,699,417**	**₱–**
	Investment in Money Market Fund*	**42,964,641**	**–**
	Income from UITF	–	**403,544**

		March 31, 2023 (Unaudited)	
		Elements of Transaction	
Related Party	**Nature of Transaction**	**Statement of Condition**	**Statement of Income**
	Interest income	–	**3,795**
First Metro ETF	Equity investment**	**₱25,803,738**	**–**

*Includes fair value gains of 0.89 million
**Includes fair value loss of ₱1.88 million

		December 31, 2022 (Audited)	
		Elements of Transaction	
Related Party	**Nature of Transaction**	Statement of Condition	Statement of Income
Philippine Savings Bank	Savings Deposit	₱15,941,513	₱–
	Investment in Money Market Fund*	42,561,098	–
	Income from UITF**	–	572,585
	Interest income	–	24,291
First Metro ETF	Equity investment***	24,837,819	–

*Includes fair value gains of ₱0.48 million
**Includes fair value gains of ₱0.41 million
***Includes fair value loss of ₱2.13 million

Transactions relating to the Bank's retirement plan are approved by its Retirement Committee. The voting right over the investments in the Bank's capital stocks is exercised by a member of the Retirement Committee as approved by all members of the Retirement Committee, whom are senior officers of the Bank.

Remunerations of Directors and Other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures.*

Total remunerations of key management personnel (covering assistant vice presidents and up) included under 'Compensation and fringe benefits' in the statements of income are as follows:

	March 31,2023 (Unaudited)	March 31, 2022 (Unaudited)
Short-term employee benefits	**₱130,651,141**	₱121,150,103
Post-employment pension benefits	**1,470,991**	1,134,117
	₱132,122,132	₱122,284,220

Short-term employee benefits include salaries and other non-monetary benefits.

Remuneration given to directors, as approved by the Board Remuneration Committee, amounted to ₱4.4 million in March 31, 2023 and 2022.

The Bank also provides banking services to directors and other key management personnel and persons connected to them.

Other Related Party Transactions

Other related party transactions of the Bank by category of related party are presented below. The following tables show the amount and outstanding balances included in the financial statements (in thousands):

	March 31, 2023 (Unaudited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Entities with significant influence (MBTC)			
Due from other banks	**(₱6,237)**	**₱1,585,816**	Peso-denominated lending with 2.50% fixed interest rates
Financial assets at Amortized Cost	**60,000**	**60,000**	Pledged for security of payroll account with MBTC.
Accounts receivable	**(97)**	**1,208**	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Miscellaneous liabilities	**–**	**9,017**	Advance payments of security deposits
Accrued other expense payable	**8,446**	**161,886**	Outstanding information technology expense payable, charges on current and savings accounts processing
Rental income	**3,013**	**–**	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Information technology expense	**37,576**	**–**	Payment of information technology expenses
Joint Venture			
Investment in a joint venture		**864,664**	Capital investment in SMFC
Share in net earnings of a joint venture	**48,379**		Share in net income of SMFC

	March 31, 2023 (Unaudited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Share in unrealized gain on remeasurement of retirement liability	**2,877**	**2,877**	30% share in remeasurement of SMFC retirement liability taken up in OCI
Accounts receivable	**(462)**	**539**	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	**(40,659)**	**35,222**	Demand and short-term peso time deposits with annual fixed rates of 1.25%
Rental income	**4,056**	**–**	Income from leasing agreements
Interest expense	**2,876**	**–**	Interest on deposit liabilities with 1.25% annual fixed rate
Other Related Parties			
Receivable from customers	**–**	**1,133,463**	Loans granted bear interest of ranging 7.05% to 8.75% with 1 to 10 years term.
Placements	**955,000**	**–**	
Maturities	**964,052**	**–**	
Miscellaneous assets	**1,918**	**1,918**	Three months advance security deposits
Accounts receivable	**(6)**	**667**	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Prepaid expense	**(3,712)**	**2,735**	Payment for various policy renewals
Deposit liabilities	**267,451**	**3,808,656**	Demand, savings and short-term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Accrued other expense payable	**–**	**100,000**	Outstanding group life insurance
Accounts payable	**68,695**	**76,545**	Various personal and car insurance payable
Miscellaneous liabilities	**(1,872)**	**–**	Advance payment of security deposits from various tenants
Interest income	**47,171**	**–**	Income on receivables from customers and interbank loans receivables
Rental income	**2,007**	**–**	Income from leasing agreements with various lease terms
Insurance expense	**36**	**–**	Payment of insurance premium
Interest expense	**85**	**–**	Interest on deposit liabilities and bills payable
Securities transactions			
Outright purchases	**210,992**	**–**	Outright purchase of FVTPL, FVOCI and investment at amortized cost
Outright sales			Outright sale of FVTPL and FVOCI investments
Key Personnel			
Receivables from customers	**–**	**11,221**	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Placements	**3,116**	**–**	
Maturities	**(3,391)**	**–**	
Interest income	**232**	**–**	Interest income from loans

	December 31, 2022 (Audited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Parent Company			
Due from other banks	**₱485,169**	**₱1,592,053**	Short term peso and foreign-currency denominated deposits with fixed rates ranging from 0.00% to 5.00%
Financial assets at Amortized Cost	**60,000**	**60,000**	Pledge for security of payroll account with MBTC in 2022
Financial assets at FVOCI	**(59,718)**	**–**	Pledge for security of payroll account with MBTC in 2021
Accounts receivable (payable)	**(4,483)**	**1,306**	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Miscellaneous assets	**(1,948)**	**–**	Security deposits on lease contracts
Miscellaneous liabilities	**(3,550)**	**2,369**	Advance payments of security deposits from various tenants
Accrued other expense payable	**63,037**	**153,440**	Outstanding information technology expense payable, charges on current and savings accounts processing
Rental income	**13,056**	**–**	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Information technology expense	**121,493**	**–**	Payment of information technology transactions
Trading and security loss	**4**	**–**	Loss from securities transactions
Securities transactions			
Outright purchases	**5,576,850**	**–**	Outright purchase of FVPL, HTM and AFS investments
Outright sales	**(104,000)**	**–**	Outright sale of FVPL and AFS investments
Joint Venture			
Investment in a joint venture	**53,359**	**816,285**	Outstanding balance of capital investment in SMFC
Dividends from joint venture	**30,059**	**–**	Dividends from SMFC
Accounts receivable	**96**	**1,001**	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	**61,881**	**75,881**	Demand and short-term peso time-deposits deposits with annual fixed rates of 1.25%
Miscellaneous liabilities	**–**	**7,861**	Advance payment of security deposits
Rental income	**17,876**	**–**	Income from leasing agreements
Interest expense	**28**	**–**	Interest on deposit liabilities
Other Related Parties (DOSRI/Indirect)			
Receivable from customers	**–**	**1,142,515**	Peso denominated lending which earns 3.00% to 7.50% fixed daily
Placements	**955,000**	**–**	interest rate with maturity terms ranging from 14 days to 10 years
Maturities	**967,797**	**–**	(excluding key personnel); mostly unsecured, with ECL
Miscellaneous assets	**(2,949)**	**–**	3 months advance security deposits
Accounts receivable	**(1,112)**	**673**	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Prepaid expense	**(5,782)**	**6,446**	Payment of various motor car vehicles, fire, money, security, payroll and robbery insurance
Deposit liabilities	**(₱4,418,680)**	**₱3,541,205**	Demand, savings and short-term peso and foreign currency time

	December 31, 2022 (Audited)		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			deposits with fixed rates ranging from 0.00% to 2.00%
Accrued other expense payable	**–**	**1,151**	Outstanding group life insurance
Accounts payable	**7,480**	**7,849**	Various personal and car insurance payable
Miscellaneous liabilities	**–**	**1,872**	Advance payment of security deposits from various tenants
Interest income	**47,171**	**–**	Income on receivables from customers and interbank loans receivables
Trading and securities loss	**43**	**–**	Gain from securities transactions
Rental income	**8,100**	**–**	Income from leasing agreements with various lease terms
Bank commission	**437**	**–**	Commission income on ATM service fees
Miscellaneous income	**937**	**–**	Service income received from insourcing agreements
Insurance expense	**52,758**	**–**	Payment of insurance premium
Interest expense	**541**	**–**	Interest on deposit liabilities
Rent expense	**(65)**	**–**	Payment of rent expense to various lessors
Securities transactions		**–**	
Outright purchases	**2,000,000**	**–**	Outright purchase of FVPL and AFS investments
Outright sales	**(150,000)**	**–**	Outright sale of FVPL and AFS investments
Key Personnel			
Receivables from customers	**–**	**11,496**	Unsecured, no impairment, with annual fixed interest rates
Availments	**2,864**	**–**	6.00% and maturities ranging from 2 to 10 years
Maturities	**(2,436)**	**–**	
Interest income	**1,032**	**–**	Interest income from loans

19. Commitments and Contingent Liabilities

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the accompanying financial statements. The Bank, however, does not anticipate significant losses as a result of these transactions.

The following is a summary of the Bank’s commitments and contingent liabilities at their equivalent peso contractual amounts:

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Trust department accounts	**₱8,667,968,912**	₱8,825,860,829
Stand-by credit lines	**123,100,000**	122,000,000
Spot foreign exchange and contracts sale	**27,180,000**	27,877,500
Late deposits/payments received	**943,815**	3,288,413
Items held for safekeeping	**1,442,934**	240,348
Others	**76,690**	60,626

Also, several suits and claims, on behalf of or against the Bank in relation to its banking operations and labor-related cases are pending before the courts and quasi-judicial bodies. The Bank and its legal counsel believe that any losses arising from suits and claims which are not specifically provided for will not have a material adverse effect on the financial statements.

20. Subsequent Event

Cash Dividend Declaration
On April 27, 2023, the BOD of the Bank approved the declaration of a 7.5% regular cash dividend for the first quarter of 2023 for stockholders on record as of May 15, 2023 amounting to ₱320.14 million or ₱0.75 per share, to be paid on May 29, 2023.

21. Other Disclosures

a) There are no unusual items of asset, liability, equity, net income or cash flow.

b) No material items of changes were noted in the comparison of actual results with estimated amounts.

c) No unregistered securities were sold or offered for sale by the Bank as of March 31, 2023

d) Segment revenue and result of business segments are found in subsequent tables.

e) The Bank was not engaged in any business combinations, acquisitions or disposal of subsidiaries and long-term investments.

Annex 7

PHILIPPINE SAVINGS BANK
UNAUDITED SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS AS OF AND FOR THE PERIOD ENDED MARCH 31, 2023 AND 2022

	March 31	
	2023	2022
PROFITABILITY RATIOS		
Return on Assets		
Net Income * / Average Total Resources	**1.50%**	1.35%
Return on Equity		
Net Income * / Average Stockholders' Equity	**10.43%**	10.10%
Net Interest Margin		
Net Interest Income / Average Earning Assets	**4.98%**	4.60%
Cost to Income Ratio		
Operating Expenses Excluding Provision for Impairment and Credit Losses and Income Taxes / Net Interest Income + Operating Income	**58.42%**	59.49%
SOLVENCY RATIOS		
Debt to Equity Ratio		
Total Liabilities / Total Stockholders' Equity	**5:76:1**	6.43:1
Asset-to-Equity Ratio		
Total Assets / Total Stockholders' Equity	**6:76:1**	7.43:1
Interest Rate Coverage Ratio		
Earnings Before Interest and Taxes / Interest Expense	**1:77:1**	3.52:1
LIQUIDITY RATIOS		
Liquidity Ratio		
Current Assets / Current Liabilities	**58.02%**	64.97%
Loans to Deposit Ratio		
Gross Loans / Total Deposits	**55.21%**	51.20%
Capital Adequacy Ratio		
Total Qualifying Capital / Total Risk-Weighted Assets	**24.61%**	24.46%

*Computed based on annualized net income

Annex 8

PHILIPPINE SAVINGS BANK
ITEM II. MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of Statements of Condition

As of March 31, 2023 (Unaudited) and December 31, 2022 (Audited)

The Bank recorded Total Assets as of March 31, 2023 at ₱255.76 billion. This was 3.28% lower than the ₱264.42 billion level in December 2022.

As of March 31, 2023, Loans and Receivables, net of allowance and unearned interest and discounts, representing 44.12% of total assets was higher by 2.88% to ₱112.85 billion from December 31, 2022 level of ₱109.70 billion. Auto Loans increased by ₱4.57 billion to ₱65.27 billion from ₱60.70 billion in the previous year. Commercial Loans rose to ₱6.72 billion on March 2023 versus ₱6.48 billion posted as of year-end 2022. Mortgage loans went down to ₱41.82 billion from ₱42.19 billion in December 2022.

Interbank Loans Receivable and Securities Purchased under Resale Agreements increased by 362.41% from ₱2.67 billion in December 2022 to ₱12.34 billion in March 2023. Cash and Other Cash Items was lower by 9.32% to ₱1.75 billion in March 2023 while Due from Other Banks increased by ₱332.04 million to ₱3.24 billion from ₱2.91 billion in December 2022. Meanwhile, Due from Bangko Sentral ng Pilipinas, representing 15.25% of total assets, increased to ₱39.00 billion from ₱37.55 billion.

As of March 31, 2023, Fair Value Through Other Comprehensive Income (FVOCI) went down by ₱23.88 billion to ₱45.78 billion from ₱69.66 billion in December 2022. Investment Securities at Amortized Cost amounted to ₱30.63 billion as of March 2023 or an increase of ₱208.13 million, while Fair Value through Profit or Loss Investments (FVTPL) increased to ₱0.04 million in March 2023. These investment securities represent 29.88% of the total assets as of March 31, 2023.

Investment Properties decreased by ₱38.02 million to ₱3.99 billion as of March 2023 from ₱4.03 billion in December 2022. Further, Property and Equipment went down by ₱5.69 million to ₱3.12 billion as of March 31, 2023.

Investments in a joint venture increased by ₱48.38 million to ₱864.66 million from ₱816.28 million as of end-December 2022, due to the recognition of PSBank's share in the net performance of Sumisho Motor Finance Corporation (SMFC), a joint venture between PSBank and Sumitomo Corporation. As of March 31, 2023, the Bank's ownership interest in SMFC is 30.00%.

Deferred Tax Assets increased by 71.94% to ₱481.61 million versus ₱280.11 million in December 2022. Moreover, Goodwill and Other Intangibles decreased by 4.96% or ₱16.55 million to ₱317.34 million in March 2023 from ₱333.89 million in December 2022.

Other Assets as of March 31, 2023 and December 31, 2022 amounted to ₱1.38 billion and ₱988.12 million, respectively .

The Bank's deposit level, representing 96.27% of total liabilities, reached ₱209.81 billion, 1.85% lower than ₱213.77 billion in December 2022. CASA went down by ₱244.20 million to ₱73.29 billion, Time deposits also decreased by 2.75% to ₱131.44 billion in March 2023 from ₱135.16 billion in December 2022. As of March 31, 2023 and December 31, 2022, Long Term Negotiable Certificate of Time Deposits (LTNCD) amounted to ₱5.08 billion.

Treasurer's, Cashier's and Manager's Checks went up to ₱1.19 billion in March 2023 from ₱1.01 billion in December 2022. On the other hand, Accrued Taxes, Interest and Other Expenses decreased by ₱271.39 million to ₱2.23 billion from ₱2.51 billion. Income Tax Payable as of March 31, 2023 was at ₱44.60 million representing accrual for the current quarter and previous year which is due for remittance to BIR on or before May 29, 2023.

Other Liabilities decreased by 8.52% or ₱353.77 million to ₱3.80 billion in March 2023 from ₱4.15 billion as of year-end 2022.

Total Capital remained strong at ₱37.82 billion, ₱679.82 million higher than December 31, 2022 level of ₱37.14 billion. Fair Value Reserves on Financial Assets at FVOCI was recorded at (₱25.08) million in March 2023 versus (₱48.78) million in December 2022.

The Bank recorded Remeasurement Losses on Retirement Plan of ₱748.52 million as of March 31, 2023 and December 31, 2022. On the other hand, the Bank's share in the Remeasurement losses on retirement plan and Hedge Reserve of its joint venture was posted at ₱2.87 million and (₱12.14) million, respectively as of March 31, 2023.

As of March 31, 2023, Cumulative Translation Adjustment amounted to ₱6.94 million.

As of March 31, 2023, Capital Adequacy Ratio (CAR) was at 24.61%. This is above the minimum regulatory requirement of 10%.

Return on Average Equity (ROAE) was registered at 10.43% in March 2023 compared to the 10.21% recorded in December 2022. Return on Average Assets (ROAA) was at 1.50% in March 2023 versus 1.35% in 2022.

Discussion of Results of Operations

March 31, 2023 vs Quarter Ended March 31, 2022 (Unaudited)

The Bank reported ₱976.88 million in net income for the first quarter of 2023 or a 10.05% jump compared to the first quarter of last year. This double-digit increase was propelled by the uptrend in loan portfolio, improvements in credit quality and the bank-wide cost-consciousness mindset resulting to prudent management of expenses.

Total Interest Income for the first quarter of 2023 was reflected at ₱4.40 billion, 36.96% higher than ₱3.22 billion recorded in the same quarter last year. Total Interest Expense also went up to ₱1.46 billion from ₱0.49 billion. Net Interest Income increased by 8.24% or ₱0.22 billion to ₱2.95 billion versus the ₱2.72 billion posted during the same quarter last year.

Interest income on Loans and Receivables was recorded at ₱2.73 billion, 7.68% higher than ₱2.53 billion recorded on the same quarter last year. Interest income on Investment Securities went up to ₱1.10 billion from ₱0.37 billion of the same period last year. Interest earned from deposits with BSP increased to ₱479.06 million while interest income from other banks went up to ₱5.50 million. Meanwhile, Interest earned from Interbank Loans Receivable and SPURA increased to ₱93.28 million or 330.58% better than the ₱21.66 million posted in 2022.

Interest Expense on the Bank's deposit liabilities increased by 237.85% to ₱1.41 billion. Interest Expense on Bonds payable significantly decreased by 62.90% to ₱20.73 million from ₱55.88 million last year due to maturity of outstanding bond. The Bank recorded ₱19.68 million in Interest Expense on lease liabilities and ₱9.02 million Interest Expense on bills payable for the quarter ended March 31, 2023.

On February 04, 2020, the Bank issued fixed rate bonds amounting to ₱4.65 billion with a tenor of three (3) years and due on February 4, 2023 with interest rate of 4.5% per annum payable quarterly.

Net Service Fees and Commission Income increased to ₱464.60 million, 6.82% higher than the ₱434.93 million recorded last year.

Meanwhile, Other Operating Income decreased by 50.75% or ₱358.85 million to ₱348.23 million.

The Bank posted a net gain on foreclosure and sale of chattel mortgage amounting to ₱128.31 million and ₱175.14 million for the quarter ended March 31, 2023 and March 31, 2022, respectively. Net gain on foreclosure and sale of investment properties amounting to ₱70.91 million in March 2023 from ₱257.80 million in 2022. Gain on sale of property and equipment increased to ₱1.31 million from year-ago level of ₱0.97 million. Miscellaneous Income was lower by ₱130.79 million to ₱141.24 million. The Bank reflected a ₱0.23 million trading gains in 2023 versus ₱0.10 million trading gains in 2022.

Meanwhile, Foreign Exchange gain increased by ₱5.18 million to ₱6.22 million in March 31, 2023 from ₱1.05 million for the quarter ended March 31, 2022.

Other Operating Expenses, excluding provision for impairment and credit losses, decreased by 4.61% to ₱2.19 billion in March 2023 from ₱2.29 billion in March 2022. Taxes and Licenses went down by ₱59.64 million or 12.13% to ₱431.97 million from ₱491.61 million. Depreciation and amortization of Bank's properties and leasehold improvements rose to ₱191.76 million, 4.87% higher than ₱182.85 million recorded on March 2022. Meanwhile, amortization of software costs was recorded at ₱27.67 million. Compensation and Fringe Benefits amounted to ₱937.58 million while security, messengerial and janitorial services was at ₱100.44 million. Occupancy and equipment-related cost amounted to ₱87.54 million in March 2023. On the other hand, Miscellaneous Expenses was recorded at ₱411.78 million versus ₱533.10 million during the same period last year.

For the period ended March 31, 2023, the Bank set aside ₱0.50 billion in provision for impairment and credit losses.

The Bank also reported share in net performance from its investment in Sumisho Motor Finance Corporation (SMFC) amounting to ₱48.38 million in March 2023 from ₱21.03 million in March 2022.

Analysis of Key Financial Soundness Indicators

March 2023 vs. March 2022 Comparative highlights on Key Financial Soundness Indicators

The following ratios measure the financial performance of the Bank:

		March 31, 2023	March 31, 2022	December 31, 2022
		(Unaudited)		(Audited)
Return on Average Equity*	ROAE	**10.43%**	10.10%	10.21%
Return on Average Assets*	ROAA	**1.50%**	1.35%	1.40%
Net Interest Margin on Average Earning Assets	NIM	**4.98%**	4.60%	4.66%
Earnings per share	EPS	**₱2.29**	₱2.08	₱8.62
Capital-to-Risk Assets Ratio	CAR	**24.61%**	24.46%	24.85%
Liquidity Ratio	LR	**58.02%**	64.97%	62.41%
Debt-Equity Ratio	DER	**5:76:1**	6.43:1	6.11:1
Asset-to-Equity Ratio	AER	**6:76:1**	7.43:1	7.11:1
Interest Rate Coverage Ratio	IRCR	**1:77:1**	3.52:1	2.52:1

** computed based on annualized/normalized net income*

1. Return on Average Equity (ROAE) in March 31, 2023 increased to 10.43% from 10.10% in the same period last year. ROAE measures how well the Bank is using common shareholders' invested money. It is calculated by dividing the annualized/normalized net income by the average of the outstanding balances of shareholders' equity at the beginning and ending of the period.

2. Return on Average Assets (ROAA) increased to 1.50% from 1.35% in March 31, 2023 versus the same period last year. ROAA is calculated by dividing the annualized/normalized net income by the average of the outstanding balances of total assets at the beginning and ending of the period.

3. Net Interest Margin on Average Earning Assets (NIM) was posted at 4.98% and 4.60% for the comparative periods of March 31, 2023 and 2022, respectively. NIM is calculated by dividing the net interest income by the average earning assets. Average interest-earning assets is based on outstanding balances at the beginning and ending of the period divided by two. (Earning assets comprised of Due from BSP - Specialized Deposit Account, Due from Other Banks, Interbank Loans Receivable and Securities Purchased Under Resale Agreements, Loans & Discounts (Current), Bills Purchased, and Sales Contract Receivables, Financial Assets at Fair Value Through Profit or Loss (FVTPL), Financial Assets at Fair Value Through Other Comprehensive (FVOCI) and Investment at amortized cost.

4. Earnings per Share (EPS) was ₱2.29 as of March 31, 2023 compared to the ₱2.08 EPS as of March 31, 2022. EPS represents the net profit the Bank has generated per common share. It is computed by dividing the year to date net income by the weighted average number of outstanding common shares.

5. Capital-to-Risk Assets Ratio (CAR) was higher at 24.61% in March 2023 versus 24.46% in March 2022. CAR is the measure of the Bank's capital strength. It is calculated by dividing the qualified capital by risk-weighted assets as defined by the Bangko Sentral ng Pilipinas (BSP).

6. Liquidity Ratio (LR) was lower at 58.02% in March 2023 from 64.97% the same period last year. LR measures the Bank's ability to meet its short-term liabilities. It is derived by dividing the current assets by current liabilities.

7. Debt-to-Equity Ratio (DER) decreased to 5:76:1 as of March 31, 2023 from 6:43:1 in March 2022. DER indicates the extent to which the Bank's leveraged, or financed by credit. This is computed by dividing total liabilities by total stockholder's equity.

8. Asset-to-Equity Ratio (AER) was lower at 6.76:1 as of March 31, 2023 from 6.43:1 as of March 31, 2022. AER is computed by dividing the total assets by total shareholder's equity.

9. Interest Rate Coverage Ratio (IRCR) decreased to 1:77:1 this year from 3:52:1 in March 2022. IRCR is a measure of the Bank's ability to meet its interest payments on outstanding debt. It is calculated by dividing the total earnings before interest and taxes over interest expense.

Key Variables and Other Qualitative and Quantitative Factors

Liquidity

PSBank manages its liquidity position to ensure that it has more than adequate funds to meet its obligations at any given time. The Bank monitors its daily liquidity and reserve position by determining inflows and outflows, short-term and long-term obligations, holdings and repayments. Short-term liquidity management identifies obligations and repayments in the next 12-months, aids in the determination of the securities trading strategy, and influences the Bank's pricing mechanism. On the other hand, long-term liquidity management covers maturing obligations and repayments of loans and investments beyond the next 12-months.

The level of liquid assets remained strong, exhibiting healthy growth in both placements with BSP/other banks and investments.

With the Bank's high capitalization, current liquidity position, strong deposit growth trend, continuing development of retail and corporate accounts, and prudent liquidity management, PSBank does not anticipate encountering any cash flow or liquidity problems in the next 12 months. It remains confident of its ability to meet its obligations and is committed to providing the necessary funding to support the projected loan growth, investment activities and expenditures for 2023.

The Bank also performs liquidity stress testing under various stress scenarios to ensure its ability to meet its funding obligations. The Bank has a Liquidity Contingency Funding Plan to anticipate and manage any funding crisis that may occur.

Material Commitments for Capital Expenditures

The Bank's capital expenditure target in 2023 includes projected expenses for IT-related activities on systems and licenses, and upgrade of bank premises including infrastructure, furniture, fixtures and equipment.

Causes for Any Material Changes from Period to Period of Financial Statements

See previous discussion on Analysis of Statement of Condition and Discussion of Results of Operations.

Known Trends, Events or Uncertainties or Seasonal Aspects

The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Annex 9

PHILIPPINE SAVINGS BANK
AGING OF RECEIVABLES

	As of March 31, 2023 (Unaudited)							
			PAST DUE	PAST DUE				
	TOTAL	CURRENT	& ITEMS IN LITIGATION	90 Days or Less	91-180 Days	181 Days to 1 Year	More Than 1 Year	ITEMS IN LITIGATION
Accounts Receivables	**₱762,989,680**	**₱258,860,506**	**₱504,129,174**	**₱16,341,737**	**₱5,780,251**	**₱3,585,702**	**₱470,823,295**	**₱7,598,189**
Accrued Interest Receivables	**2,397,485,063**	**2,131,990,884**	**265,494,179**	**167,479,256**	**32,923,988**	**19,614,551**	**26,946,345**	**18,530,039**
Sales Contract Receivable	**10,465,346**	**1,948,800**	**8,516,546**	**731,266**	**–**	**–**	**3,612,927**	**4,172,354**
Total Receivables	**₱3,170,940,089**	**₱2,392,800,190**	**₱778,139,899**	**₱184,552,259**	**₱38,704,239**	**₱23,200,253**	**₱501,382,567**	**₱30,300,582**