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2023 Audited Financial Statements

PSBank
PHILIPPINE SAVINGS BANK
Metrobank Group

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MANAGEMENT DISCUSSION AND ANALYSIS

BALANCE SHEET

Assets

The Bank's Total Assets closed at PhP238.43 billion, 9.83% lower than the PhP264.42 billion the previous year. The decrease was primarily due to the reduction in the Bank's investment portfolio, including placements in the Bangko Sentral ng Pilipinas (BSP).

Loans and Receivables

Loans and Receivables expanded by PhP13.07 billion to PhP122.76 billion. Consumption loans grew by 23.70% to PhP75.08 billion while Real Estate and Other loans was at PhP50.12 billion.

Securities and Investments

Due from BSP decreased by PhP27.81 billion to PhP9.75 billion due to lower placements in BSP's overnight and term deposit facilities. Interbank Loans Receivable and Securities Purchased under Resale Agreement amounted to PhP6.99 billion.

Fair Value through Profit or Loss Investments increased to PhP414.30 million from PhP35.88 thousand. On the other hand, Fair Value through Other Comprehensive Income decreased by PhP15.30 billion to PhP54.36 billion caused by the sale and maturities of government securities. Investment Securities at Amortized Cost dropped by 1.74% to PhP29.89 billion.

Deferred Tax and Other Assets

Deferred Tax Assets was up by PhP977.49 million at PhP1.26 billion from higher Provision for Impairment and Credit Losses this year and from the recognition of unbooked deferred tax assets.

Investment in a Joint Venture improved by PhP53.89 million to PhP870.18 million. This represents the Bank's 30.00% stake in Sumisho Motor Finance Corporation.

Goodwill and Intangible Assets went down to PhP298.20 million from PhP333.89 million.

Deposit Liabilities

Total Deposit Liabilities decreased by 11.30% year-on-year to PhP189.62 billion. Demand deposit was lower by PhP1.28 billion to PhP25.33 billion and Savings deposits was also down by 1.00% to PhP46.46 billion. Time deposits, including Long-term Negotiable Certificates of Deposits, likewise declined by 15.98% to PhP117.83 billion. CASA mix, however, improved to 38% from 34%.

Bills Payable

Bills Payable reached PhP271.90 million or 77.07% less than the PhP1.19 billion level the previous year mainly due to the decrease in secured borrowings from counterparties.

Bonds Payable

Peso Fixed Rate Bonds of PhP4.65 billion issued in February 2020 matured last February 2023. The 3-year bond was priced at 4.50% interest per annum payable quarterly.

Capital

The Bank's Capital registered at PhP40.15 billion, higher by 8.12% from the previous year. The Bank declared quarterly dividends of PhP0.75 per share, consistent with the policy.

Common Equity Tier 1 Ratio and Total Capital Adequacy Ratio remain strong at 23.56% and 24.46% respectively. Both ratios are above the BSP's minimum requirements.

INCOME STATEMENT

Net Income

The Bank ended 2023 with a Net Income of PhP4.53 billion, up 23.18% from the previous year. The Bank's strong financial performance came from the double-digit growth in loans, higher investment revenues and muted costs from operational efficiencies.

Net Interest Income

Net Interest Income improved to PhP11.83 billion, increasing by 7.02% year-on-year. Interest Income on Loans and Receivables rose by 12.99% to PhP11.48 billion and Interest Income on Investment Securities was also better by 52.54%.

Interest Expense on Deposit Liabilities increased by PhP2.85 billion from higher cost of funds. Interest Expense on Bills Payable amounted to Php35.28 million while Interest Expense on Bonds Payable decreased by PhP203.31 million to PhP20.73 million due to the maturity of the Peso Fixed Rate Bonds.

Non-Interest Income

The Bank's Other Operating Income of PhP3.32 billion was lower year-on-year by 16.40% despite Net Service Fees and Commission Income increasing by PhP45.63 million to PhP1.73 billion this year from higher loan bookings. Gain on Foreclosure and Sale of Investment and Chattel Mortgage Properties reflected a lower amount of PhP981.90 million or a 34.62% drop due to lower ROPA-related activities. Miscellaneous Income, likewise, decreased by 25.06% mostly from reduced bancassurance income.

The Bank recorded its Share in Net Income of a Joint Venture in Sumisho Motor Finance Corporation at PhP86.34 million from PhP83.42 million last year. This was higher by 3.50% versus the same period last year.

Operating Expenses and Provisions

Total Operating Expenses, excluding Provision for Impairment and Credit Losses, registered a net decline of PhP109.44 million due to continuous cost optimization efforts. Compensation and Fringe Benefits increased by 4.70% to PhP3.81 billion while Taxes and Licenses went up by 3.70% to PhP1.67 billion. Depreciation and Amortization, as well as Security, Messengerial and Janitorial Services grew by 11.14% and 4.41%, respectively. The increase in expenses were offset by the 20.64% decrease in Miscellaneous Expenses related to Insurance, Litigation, Fines, Penalties and Other Charges, and Repairs and Maintenance.

The Bank set aside PhP1.45 billion in Provision for Impairment and Credit Losses. This was higher than PhP1.31 billion the previous year.

As of December 2023, the Bank had 250 branches and 556 ATMs.

SUPPLEMENTARY MANAGEMENT DISCUSSION

On January 15, 2013, the Bangko Sentral ng Pilipinas, through its Circular No. 781, issued the Basel III Implementing Guidelines on Minimum Capital Requirements. The guidelines took effect on January 01, 2014 wherein the risk-based capital ratio of the Bank, expressed as a percentage of qualifying capital to risk weighted assets, shall not be less than ten percent (10%) for both solo and consolidated basis. Other minimum capital ratios include Common Equity Tier 1 (CET1) ratio and Tier 1 capital ratios of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed.

On March 29, 2022, the BSP issued Circular 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.

As of December 31, 2023 and 2022, the Bank maintains these ratios above minimum requirements.

The capital-to-risk assets ratio of the Bank as reported to the BSP as of December 31, 2023 and 2022 based on BASEL III are shown in the table below (in millions):

	2023	2022
Common Equity Tier 1 capital	**₱38,876**	₱35,685
Less: Regulatory Adjustments to CET1 capital	**2,998**	2,164
Total Tier 1 Capital	**35,878**	33,521
Tier 2 capital	**1,368**	1,193
Less: Regulatory Adjustments to Tier 2 capital	**-**	-
Total Tier 2 capital	**1,368**	1,193
Total qualifying capital (Note 21)	**₱37,246**	₱34,714
Credit risk-weighted assets	**₱125,258**	₱112,666
Market risk-weighted assets	**282**	81
Operational risk-weighted assets	**26,710**	26,966
Risk weighted-assets (Note 21)	**₱152,250**	₱139,713

	2023	2022
Common equity tier 1 ratio*		
Common equity tier 1 capital		
Divided by: Total Risk-weighted assets	**23.56%**	23.99%
Tier 1 capital ratio (Note 21)		
Adjusted tier 1 capital		
Divided by: Total risk-weighted assets	**23.56%**	23.99%
Total capital adequacy ratio (Note 21)		
Total qualifying capital		
Divided by: Total risk-weighted assets	**24.46%**	24.85%

*As of December 31, 2023 and 2022, the capital conservation buffer was 17.56% and 17.99%, respectively.

Regulatory qualifying capital consists of Tier 1 (going concern) capital, which comprises capital stock, surplus, surplus reserves, net unrealized gains on AFS 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 comprises 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.

The components of Tier 1 capital and regulatory adjustments as follows (in millions):

	December 31	
	2023	2022
	CET1	CET1
Paid-up common stock	**₱4,269**	₱4,269
Additional paid-in capital	**11,419**	11,419
Retained Earnings	**19,419**	17,264
Undivided Profits	**4,497**	3,483
Other comprehensive income		
Net unrealized gains (losses) on AFS securities	**26**	(112)
Cumulative foreign currency translation	**4**	4
Remeasurement Losses on Retirement Plan	**(749)**	(633)
Gains/(Losses) on Fair Value Adjustments of Hedging Instruments	**(9)**	(9)
Sub-total	**₱38,876**	₱35,685
Less Regulatory adjustments:		
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	**187**	190
Deferred tax asset	**1,691**	848
Goodwill	**30**	30
Other intangible assets	**245**	280
Significant minority investments	**845**	816
Total deductions	**2,998**	2,164
Total Common Equity Tier 1 capital	**35,878**	33,521
Additional Tier 1 (AT1) capital	**–**	–
Total Tier 1 capital	**₱35,878**	₱33,521

Full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements as follows (in millions):

	December 31, 2023			December 31, 2022		
	Common Equity Tier 1 Capital	**Reconciling Items**	**Audited Financial Statements**	Common Equity Tier 1 Capital	Reconciling Items	Audited Financial Statements
Paid-up common stock	**₱4,269**	**₱-**	**₱4,269**	₱4,269	₱-	₱4,269
Additional paid-in capital	**11,419**	**-**	**11,419**	11,419	-	11,419
Retained Earnings	**19,419**	**1,552**	**20,971**	17,264	1,310	18,573
Undivided Profits	**4,497**	**34**	**4,531**	3,483	194	3,678
Net unrealized gains on AFS securities	**26**	**45**	**71**	(112)	63	(49)
Remeasurement Losses on Retirement Plan*	**(749)**	**(374)**	**(1,123)**	(633)	(113)	(746)
Cumulative foreign currency translation	**4**	**3**	**7**	4	4	8
Gains/(Losses) on Fair Value Adjustments of Hedging Instruments	**(9)**	**18**	**9**	(9)	(3)	(12)
Tier 1 (CET1) Capital/Total Equity	**₱38,876**	**₱1,278**	**₱40,154**	₱35,685	₱1,455	₱37,140

*Remeasurement Losses on Retirement Plan includes "Remeasurement Losses on Retirement Plan" and "Equity in Remeasurement Gains on Retirement Plan of a Joint Venture" on audited financial statements

Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP and vice versa.

The components of Tier 2 capital and deductions, as reported to BSP as of December 31, 2023 and 2022 consist of General loan loss provision amounting ₱1.4 billion and ₱1.2 billion, respectively.

In 2017, the General loan loss provision is limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof is deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio.

SUPPLEMENTARY MANAGEMENT DISCUSSION

On August 14, 2018, the Bangko Sentral ng Pilipinas (BSP) issued Circular No. 1011 covering guidelines on the adoption of the Philippine Financial Reporting Standard (PFRS) 9 - Financial Instruments. Under the said circular, banks shall set up general loan loss provision (GLLP) equivalent to one percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. Banks are not required to provide a one percent (l%) GP on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments. Banks shall use Retained Earnings Reserve-Others as temporary account of Retained Earnings-General Provision (RE-GP). As a temporary presentation in CAR reports, the Retained Earnings (RE) included in Common Equity Tier (CET)/Core Tier 1 shall be net of Retained Earnings-General Provision. In computing Tier 2 Capital, the General Loan Loss provision (GLLP), shall include the RE-GP. However, the GLLP added back to on-balance sheet assets subject to risk-weight shall not include the RE-GP since when appropriating the RE, total assets is not affected. The Bank is compliant with the BSP Circular No. 1011.

Risk weighted assets by type of exposure as of December 31, 2023 and 2022 consist of the following (in millions):

	December 31, 2023			December 31, 2022		
	Credit Risk	**Market Risk**	**Operational Risk**	Credit Risk	Market Risk	Operational Risk
On-Balance Sheet	**₱125,207**	**₱-**	**₱-**	₱112,660	₱-	₱-
Off-Balance Sheet	**17**	**-**	**-**	33	-	-
Counterparty in the Banking Book	**34**	**-**	**-**	(27)	-	-
Counterparty in the Trading Book	**-**	**-**	**-**	-	-	-
Interest Rate Exposures	**-**	**169**	**-**	-	-	-
Foreign Exchange Exposures	**-**	**113**	**-**	-	81	-
Basic Indicator	**-**	**-**	**26,710**	-	-	26,966
Total	**₱125,258**	**₱282**	**₱26,710**	₱112,666	₱81	₱26,966
Capital Requirements	**₱12,526**	**₱28**	**₱2,671**	₱11,267	₱8	₱2,697

In 2017, the credit-risk weighted assets is net of General loan loss provision, in excess of the amount permitted to be included in Tier 2. Meanwhile, in 2018, the computation of GLLP is in compliance with BSP Circular No. 1011, wherein the Bank developed ECL parameters and methodologies for each portfolio of its loans and receivables, using historical data as well as forward-looking inputs and assumptions.

Risk-weighted on-balance sheet assets covered by credit risk mitigants were based on collateralized transactions as well as guarantees by the Philippine National Government (PNG) and those guarantors and exposures with highest credit rating. Third party credit assessments were based on the ratings by Standard & Poor's, Moody's, Fitch and PhilRatings on exposures to Sovereigns, MDBs, Banks, LGUs, Government Corporations and Corporates. The Bank has no exposures to securitization structures. Further, it has no structured products issued or purchased.

The Bank uses the standardized approach to compute the market risk exposures for the Capital Adequacy Ratio. For each separate risk area (credit, market, operational, interest rate risk), the details of risk exposures and assessments are disclosed in Note 5 of the audited financial statements.

The Bank uses the Basic Indicator Approach in computing for the operational risk capital charge.

The description of the main features of capital instruments issued on common shares and those eligible as Tier 2 capital are presented in Note 21 and Note 17 of the audited financial statements, respectively.

The Bank’s total risk-weighted on-balance sheet assets, net of specific provision broken down by type of exposures as follows (in millions):

December 31, 2023				Risk Weights						
	Exposures, Net of Specific Provisions	Exposures Covered by CRM, Gross of Materiality Threshold	Exposures, not covered by CRM	0%	20%	50%	75%	100%	150%	Total
Cash on Hand	₱1,654	₱–	₱1,654	₱1,654	₱–	₱–	₱–	₱–	₱–	₱1,654
Due from Bangko Sentral ng Pilipinas (BSP)	9,752	–	9,752	9,752	–	–	–	–	–	9,752
Due from Other Banks	1,759	–	1,759	–	–	1,759	–	–	–	1,759
Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)	54,344	–	54,344	52,700	1,145	499	–	–	–	54,344
Debt Securities Measured at Amortized Cost (HTM)	30,364	–	30,364	25,614	1,522	2,713	–	515	–	30,364
Loans and Receivables										
Interbank Loans Receivable	–	–	–	–	–	–	–	–	–	
Loans and Receivables – Others	123,491	649	122,842	–	–	19,326	2,082	99,182	2,252	122,842
Loans and Receivables Arising from Repurchase Agreements	6,993	–	6,993	6,993	–	–	–	–	–	6,993
Sales Contract Receivable	5	–	5	–	–	–	–	1	4	5
Real and Other Properties Acquired	2,565	–	2,565	–	–	–	–	–	2,565	2,565
Total Exposures, Excluding Other Assets	230,927	649	230,278	96,713	2,667	24,297	2,082	99,698	4,821	230,278
Other Assets	5,142	–	5,142	–	–	–	–	5,142	–	5,142
Total Exposures, Including Other Assets	₱236,069	₱649	₱235,420	₱96,713	₱2,667	₱24,297	₱2,082	₱104,840	₱4,821	₱235,420
Total Risk-weighted On-Balance Sheet Assets not covered by CRM				–	533	12,149	1,561	104,840	7,233	126,316
Total risk-weighted On-Balance Sheet Assets covered by CRM				–	–	–	–	–	–	–
Total Risk-weighted On-Balance Sheet Assets				₱–	₱533	₱12,149	₱1,561	₱104,840	₱7,233	₱126,316

SUPPLEMENTARY MANAGEMENT DISCUSSION

December 31, 2022				Risk Weights						
	Exposures, Net of Specific Provisions	Exposures Covered by CRM, Gross of Materiality Threshold	Exposures, not covered by CRM	0%	20%	50%	75%	100%	150%	Total
Cash on Hand	₱1,931	₱–	₱1,931	₱1,931	₱–	₱–	₱–	₱–	₱–	₱1,931
Due from Bangko Sentral ng Pilipinas (BSP)	37,584	–	37,584	37,584	–	–	–	–	–	37,584
Due from Other Banks	2,906	–	2,906	–	–	2,906	–	–	–	2,906
Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)	69,592	–	69,592	67,987	1,123	482	–	–	–	69,592
Debt Securities Measured at Amortized Cost (HTM)	30,896	–	30,896	25,040	1,526	3,324	–	1,006	–	30,896
Loans and Receivables										
Interbank Loans Receivable	18	–	18	–	18	–	–	–	–	18
Loans and Receivables – Others	110,283	604	109,679	–	197	20,834	–	86,664	1,984	109,679
Loans and Receivables Arising from Repurchase Agreements	2,652	–	2,652	2,652	–	–	–	–	–	2,652
Sales Contract Receivable	10	–	10	–	–	–	–	3	7	10
Real and Other Properties Acquired	2,353	–	2,353	–	–	–	–	–	2,353	2,353
Total Exposures, Excluding Other Assets	258,225	604	257,621	135,194	2,864	27,546	–	87,673	4,344	257,621
Other Assets	5,220	–	5,220	–	–	–	–	5,220	–	5,220
Total Exposures, Including Other Assets	₱263,445	₱604	₱262,841	₱135,194	₱2,864	₱27,546	₱–	₱92,893	₱4,344	₱262,841
Total Risk-weighted On-Balance Sheet Assets not covered by CRM				–	573	13,773	–	92,893	6,515	113,754
Total risk-weighted On-Balance Sheet Assets covered by CRM				–	–	–	–	–	–	–
Total Risk-weighted On-Balance Sheet Assets				₱ –	₱573	₱13,773	₱ –	₱92,893	₱6,515	₱113,754

The total other assets are computed as follows (in millions):

	December 31	
	2023	2022
Total Assets	**₱237,120**	₱263,377
General Loan Loss Provisions	**2,373**	2,232
Deductions:		
Total Exposures Excluding Other Assets	**230,927**	258,225
Financial Assets Held for Trading	**425**	-
Unsecured DOSRI	**187**	190
Deferred Tax Assets	**1,692**	848
Goodwill	**30**	30
Other Intangible Assets	**245**	280
Significant minority investments	**845**	816
Total Deductions	**₱234,351**	₱260,389
Total Other Assets	**5,142**	5,220

The Bank's total risk-weighted off-balance sheet assets broken down by type of exposures as follows (in millions):

2023				**Risk Weights**						
	Notional Principal Amount	**Credit Conversion Factor (CCF)**	**Credit Equivalent Amount**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Total**
Stand-by LCs										
Trade-related contingencies arising from movement of goods	**₱11**	**20.00%**	**₱2**	**₱-**	**₱-**	**₱-**	**₱-**	**₱2**	**₱-**	**₱2**
Transaction-related contingencies	**30**	**50.00%**	**15**	**-**	**-**	**-**	**-**	**15**	**-**	**15**
Spot foreign exchange contracts sold	**28**	**0.00%**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other Commitments	**-**	**0.00%**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Late deposits/payments received	**9,295**	**0.00%**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Trust Department accounts	**-**	**0.00%**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Others	**-**	**0.00%**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Notional Principal Amount	**₱9,364**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Risk-Weighted Off-Balance Sheet Assets			**₱17**	**₱-**	**₱-**	**₱-**	**₱-**	**₱17**	**₱-**	**₱17**

SUPPLEMENTARY MANAGEMENT DISCUSSION

2022

	Notional Principal Amount	Credit Conversion Factor (CCF)	Credit Equivalent Amount	0%	50%	75%	100%	150%	Total
Stand-by LCs									
Trade-related contingencies arising from movement of goods	₱92	20.00%	₱18	₱-	₱-	₱-	₱18	₱-	₱18
Transaction-related contingencies	30	50.00%	15	-	-	-	15	-	15
Spot foreign exchange contracts (sold)	28	0.00%	-	-	-	-	-	-	-
Late deposits/payments received	3	0.00%	-	-	-	-	-	-	-
Trust Department accounts	8,826	0.00%	-	-	-	-	-	-	-
Items held for safekeeping/custodianship	-	0.00%	-	-	-	-	-	-	-
Items held as collaterals	-	0.00%	-	-	-	-	-	-	-
Others	-	0.00%	-	-	-	-	-	-	-
Total Notional Principal Amount	₱8,979		-	-	-	-	-	-	-
Total Risk-Weighted Off-Balance Sheet Assets			₱33	₱-	₱-	₱-	₱33	₱–	₱33

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

	2023	2022
A. Capital Measure	**₱35,878**	₱33,521
B. Exposure Measure	**236,514**	263,482
C. Basel III Leverage Ratio (A/B)	**15.17%**	12.72%

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

Summary Comparison of Accounting Assets vs. Leverage Ratio Exposure	**2023**	2022	**Common Disclosure vs. Leverage Ratio Exposure**	**2023**	2022
Total consolidated assets	**₱237,120**	₱263,377	On-balance sheet exposures	**₱229,505**	₱260,794
Adjustments for derivative financial instruments	**–**	–	Derivative exposures	**–**	–
Adjustments for securities financial transactions	**–**	–	Securities financing transaction exposures	**6,990**	2,651
Adjustments for off-balance sheet items	**20**	37	Other off-balance sheet exposures	**20**	37
Other adjustments	**(626)**	68	Tier 1 capital	**35,878**	33,521
			Total Leverage Ratio exposures	**₱236,514**	₱263,482
Leverage ratio exposures	**₱236,514**	₱263,482	Basel III Leverage Ratio	**15.17%**	12.72%

Meanwhile, the reconciliation requirement that details the source(s) of material differences between Banks' total balance sheet assets in its financial statements and on-balance sheet exposures in the common disclosure template is disclosed in the Bank's Annual Report (SEC 17-A).

On March 10, 2016 and February 8, 2018, the BSP issued Circular Nos. 905 and 996, respectively, which include guidelines on liquidity coverage ratio (LCR), and LCR disclosure standards that are consistent with the Basel III framework. On March 15, 2019, the BSP issued Circular No. 1035 which approved the: (1) extension of the observation period of the minimum Basel III Liquidity Coverage Ratio (LCR) requirement to December 31, 2019 for subsidiary banks and quasi-banks (QBs) of universal and commercial banks (UBs/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 December 31, 2023 and 2022, the LCR in single currency as reported to the BSP are shown in the table below (in millions):

	2023	2022
A. Total Stock of High-Quality Liquid Assets	**₱100,420**	₱136,201
B. Total Net Cash Outflows	**59,805**	85,822
C. Liquidity Coverage Ratio [A/B]	**167.91%**	158.70%

On June 6, 2018, the BSP issued Circular No. 1007, implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (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% 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 - Net Stable Funding Ratio (NSFR) for subsidiary banks/quasi-banks of universal and commercial banks (UBs/KBs). Subsidiary banks/QBs of UBs/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/ QBs of UBs/KBs shall be 100%.

As of December 31, 2023 and 2022, the NSFR as reported to the BSP is shown in the table below (in millions):

	2023	2022
A. Available Stable Funding	**₱168,111**	₱163,874
B. Required Stable Funding	**120,937**	110,358
C. Net Stable Funding Ratio [A/B]	**139.01%**	148.49%

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

SECURITIES AND EXCHANGE COMMISSION
7907 Makati Avenue, Salcedo Village,
Barangay Bel-Air, Makati City, 1209

The management of **Philippine Savings Bank** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2023 and 2022, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

SyCip, Gorres, Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

(Signed)	*(Signed)*	*(Signed)*
VICENTE R. CUNA, JR.	**JOSE VICENTE L. ALDE**	**LEAH M. ZAMORA**
Chairman of the Board	**President**	**Controller**

Signed this day of February 22, 2024.

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

SUBSCRIBED AND SWORN TO before me this FEB 22 2024 affiants exhibiting to me their passports as follows:

Name	Passport No.	Date of Issue	Place of Issue
Vicente R. Cuna, Jr.			NCR South
Jose Vicente L. Alde			-
Leah M. Zamora			Manila

Doc. No. 25
Page No. 6
Book No. VIII
Series of 2024.

MYRA SJ. SAN BUENAVENTURA
Notary Public for Makati until 12.31.2024 (M-005)
Roll No. 51202
PTR 10073919/1.02.24/Makati
IBP 375401/12.27.23 (2024) /Cam. Sur
Unit 403B, MG Bldg., 150 Amorsolo St.
Legaspi Village, 1229 Makati (Tel. 09228365212)
MCLE VIII-0001111 Issued 12.12.22 v/u 4.14.28

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philippine Savings Bank

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Philippine Savings Bank ("the Bank"), which comprise the statements of condition as at December 31, 2023 and 2022 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2023, and notes to the financial statements, including material accounting policy information

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Adequacy of allowance for credit losses on loans and receivables

The Bank's application of the expected credit loss (ECL) model in calculating the allowance for credit losses on loans and receivables is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Bank's credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset and expected recoveries from defaulted accounts, and impact of any financial support and credit enhancements extended by any party; and incorporating forward-looking information (called overlays) in calculating ECL.

Allowance for credit losses on loans and receivables as of December 31, 2023 amounted to ₱6.2 billion. Provision for credit losses of the Bank in 2023 amounted to ₱1.5 billion.

The disclosures related to the allowance for credit losses on loans and receivables are included in Note 15 to the financial statements.

Audit response

We obtained an understanding of the board-approved ECL methodologies and models used for the Bank's different credit exposures and assessed whether these considered the requirements of PFRS 9, *Financial Instruments*, to reflect an unbiased and probability-weighted outcome, the time value of money, and the best available forward-looking information.

We (a) assessed the Bank's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts and credit risk management policies and practices in place; (c) tested the Bank's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the Bank's records and considering management's assumptions regarding future collections, advances, extensions, renewals and modifications; (e) tested loss given default by inspecting historical recoveries including the timing, related direct costs, write-offs and collateral valuations, and the effects of any financial support and credit enhancements provided by any party; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) evaluated the forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Bank's lending portfolios and broader industry knowledge; and (h) tested the effective interest rate used in discounting the expected loss.

INDEPENDENT AUDITOR'S REPORT

Further, we compared the data used in the ECL models from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We involved our internal specialists in the performance of the above procedures. We reviewed the completeness of the disclosures made in the financial statements.

Recognition of deferred tax assets

The recognition of deferred tax assets is significant to our audit because the assessment process is complex and judgmental and is based on assumptions such as availability of future taxable income and the timing of the reversal of the temporary differences that are affected by expected future market or economic conditions and the expected performance of the Bank. The estimation uncertainty increased, as a result of the effect of coronavirus pandemic, on the macroeconomic factors used in developing the assumptions.

As of December 31, 2023, the net deferred tax assets amounted to ₱1.3 billion. The disclosures in relation to deferred income taxes are included in Note 27 to the financial statements.

Audit response

We involved our internal specialist in interpreting the tax regulations, testing the temporary differences identified by the Bank and the applicable tax rates. We also re-performed the calculation of the deferred tax assets. We evaluated the management's assessment on the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing the loan portfolio and deposit growth rates to the historical performance of the Bank and the industry. We also assessed the timing of the reversal of future taxable and deductible temporary differences.

Other Information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Reports on the Supplementary Information Required Under Section 174 of the Manual Regulations for Banks (MORB) and Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Section 174 of the Manual Regulations for Banks (MORB) in Note 36 and Revenue Regulations No. 15-2010 in Note 37 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine Savings Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor’s report is Veronica Mae A. Arce.

SYCIP GORRES VELAYO & CO.

Veronica Mae A. Arce
Partner
CPA Certificate No. 0117208
Tax Identification No. 234-282-413
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
BIR Accreditation No. 08-001998-135-2021, November 10, 2021, valid until November 9, 2024
PTR No. 10079902, January 5, 2024, Makati City

February 22, 2024

STATEMENTS OF CONDITION

	December 31	
	2023	2022
ASSETS		
Cash and Other Cash Items	**₱1,653,554,961**	₱1,930,720,274
Due from Bangko Sentral ng Pilipinas (Notes 7 and 16)	**9,745,633,911**	37,553,243,574
Due from Other Banks (Note 29)	**1,764,229,676**	2,910,493,038
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Note 7)	**6,989,635,680**	2,669,609,031
Fair Value Through Profit or Loss (FVTPL) Investments (Note 8)	**414,298,313**	35,875
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) (Note 8)	**54,359,693,631**	69,660,715,882
Investment Securities at Amortized Cost (Note 8)	**29,893,168,043**	30,422,284,704
Loans and Receivables (Note 9)	**122,764,412,226**	109,697,304,552
Investment in a Joint Venture (Notes 10 and 29)	**870,178,530**	816,284,853
Property and Equipment (Note 11)	**3,141,957,377**	3,126,723,127
Investment Properties (Note 12)	**3,934,950,184**	4,031,471,065
Deferred Tax Assets (Note 27)	**1,257,607,610**	280,113,544
Intangible Assets and Goodwill (Note 13)	**298,197,196**	333,890,899
Other Assets (Note 14)	**1,345,778,616**	988,118,816
	₱238,433,295,954	₱264,421,009,234
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities (Note 16)		
Demand	**₱25,325,912,039**	₱26,602,133,863
Savings	**46,463,448,245**	46,933,474,339
Time	**112,749,125,906**	135,158,982,248
Long-term Negotiable Certificates of Deposits	**5,084,217,598**	5,077,602,528
	189,622,703,788	213,772,192,978
Bills Payable	**271,896,461**	1,185,944,975
Bonds Payable (Note 17)	**–**	4,648,449,939
Treasurer's, Cashier's and Manager's Checks	**1,514,065,655**	1,014,225,796
Accrued Taxes, Interest and Other Expenses (Note 18)	**2,663,537,503**	2,506,216,736
Other Liabilities (Note 19)	**4,206,934,631**	4,154,367,586
	198,279,138,038	227,281,398,010
Equity		
Common Stock (Note 21)	**4,268,594,160**	4,268,594,160
Capital Paid in Excess of Par Value (Note 21)	**11,418,563,257**	11,418,563,257
Surplus Reserves (Note 30)	**1,046,398,969**	1,043,979,211
Surplus (Note 21)	**24,455,554,572**	21,207,490,714
Fair Value Reserves on Financial Assets at FVOCI (Note 8)	**70,794,457**	(48,782,635)
Remeasurement Losses on Retirement Plan (Note 24)	**(1,129,174,728)**	(748,523,773)
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture (Note 10)	**6,178,352**	2,877,392
Equity in Hedge Reserves of a Joint Venture (Note 10)	**9,707,213**	(12,144,581)
Cumulative Translation Adjustment	**7,541,664**	7,557,479
	40,154,157,916	37,139,611,224
	₱238,433,295,954	₱264,421,009,234

See accompanying Notes to Financial Statements.

STATEMENTS OF INCOME

	Years Ended December 31		
	2023	2022	2021
INTEREST INCOME			
Loans and receivables (Note 9)	**₱11,479,459,384**	₱10,159,518,037	₱12,148,774,170
Financial assets at FVOCI and investment securities at amortized cost (Note 8)	**4,307,661,938**	2,574,256,913	1,486,019,162
Due from Bangko Sentral ng Pilipinas (Note 7)	**1,397,792,663**	1,254,216,130	648,063,197
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**419,381,106**	195,778,577	70,592,184
Due from other banks	**16,474,592**	4,101,643	47,132
FVTPL investments (Note 8)	**3,495,728**	2,152	11,272,985
	17,624,265,411	14,187,873,452	14,364,768,830
INTEREST EXPENSE			
Deposit liabilities (Note 16)	**5,663,176,485**	2,811,393,495	1,637,233,919
Lease liabilities (Note 25)	**78,902,394**	79,873,386	85,201,992
Bills payable (Note 17)	**35,278,313**	21,919,260	41,972
Bonds payable (Note 17)	**20,731,311**	224,036,617	437,530,261
	5,798,088,503	3,137,222,758	2,160,008,144
NET INTEREST INCOME	**11,826,176,908**	11,050,650,694	12,204,760,686
Service fees and commission income (Note 22)	**1,792,742,915**	1,732,841,894	1,581,126,848
Service fees and commission expense (Note 22)	**65,583,938**	51,309,070	47,816,732
NET SERVICE FEES AND COMMISSION INCOME	**1,727,158,977**	1,681,532,824	1,533,310,116
OTHER OPERATING INCOME (CHARGES)			
Gain on foreclosure and sale of chattel mortgage properties - net (Note 14)	**619,971,252**	700,214,707	142,185,112
Gain on foreclosure and sale of investment properties - net (Note 12)	**361,931,299**	801,738,724	571,276,769
Foreign exchange gain (loss) - net	**17,627,813**	(6,075,489)	(8,168,185)
Trading and securities gains - net (Note 8)	**5,293,898**	2,455,186	2,733,476
Gain on sale of property and equipment (Note 11)	**3,895,058**	12,079,779	2,042,084
Gain on disposal of investment securities at amortized cost (Notes 3 and 8)	–	–	11,711,129
Miscellaneous (Notes 12, 23 and 25)	**582,860,969**	777,775,337	700,430,805
	1,591,580,289	2,288,188,244	1,422,211,190
TOTAL OPERATING INCOME	**15,144,916,174**	15,020,371,762	15,160,281,992
OTHER EXPENSES			
Compensation and fringe benefits (Notes 24 and 29)	**3,811,715,458**	3,640,553,887	3,545,335,550
Taxes and licenses	**1,672,526,981**	1,612,926,317	1,586,134,257
Provision for credit and impairment losses (Note 15)	**1,451,089,796**	1,306,242,436	3,070,678,224
Depreciation (Note 11)	**840,135,760**	755,952,721	836,327,579
Security, messengerial and janitorial services	**431,238,658**	413,011,422	349,532,682
Occupancy and equipment-related costs (Note 25)	**338,465,479**	344,568,484	352,588,645
Amortization of intangible assets (Note 13)	**106,212,859**	102,850,715	113,649,164
Miscellaneous (Notes 12 and 26)	**1,690,846,708**	2,130,720,607	2,082,202,992
	10,342,231,699	10,306,826,589	11,936,449,093

(Forward)

STATEMENTS OF INCOME

	Years Ended December 31		
	2023	2022	2021
INCOME BEFORE SHARE IN NET INCOME OF A JOINT VENTURE AND INCOME TAX	**₱4,802,684,475**	₱4,713,545,173	₱3,223,832,899
SHARE IN NET INCOME OF A JOINT VENTURE (Notes 10 and 29)	**86,340,894**	83,418,474	41,914,529
INCOME BEFORE INCOME TAX	**4,889,025,369**	4,796,963,647	3,265,747,428
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	**1,208,573,920**	783,316,316	312,183,551
Deferred	**(850,610,415)**	335,219,072	1,414,071,157
	357,963,505	1,118,535,388	1,726,254,708
NET INCOME	**₱4,531,061,864**	₱3,678,428,259	₱1,539,492,720
Basic/Diluted Earnings Per Share (Note 28)	**₱10.61**	₱8.62	₱3.61

See accompanying Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2023	2022	2021
NET INCOME	**₱4,531,061,864**	₱3,678,428,259	₱1,539,492,720
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that recycle to profit or loss in subsequent periods:			
Equity in hedge reserves of a joint venture (Note 10)	**21,851,794**	–	22,952,699
Fair value reserves on debt securities at FVOCI (Note 8)	**112,803,154**	(58,258,709)	(13,993,219)
Cumulative translation adjustment	**(15,815)**	14,514,893	14,614,438
	134,639,133	(43,743,816)	23,573,918
Items that do not recycle to profit or loss in subsequent periods:			
Remeasurement gains (losses) on retirement plan (Note 24)	**(507,534,607)**	(154,184,385)	193,636,016
Equity in remeasurement gains (losses) on retirement plan of a joint venture (Note 10)	**3,300,960**	–	4,162,568
Fair value reserves on equity securities at FVOCI (Note 8)	**6,773,938**	7,066,184	3,344,929
Income tax effect (Note 27)	**126,883,652**	38,546,096	(100,283,171)
	(370,576,057)	(108,572,105)	100,860,342
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(235,936,924)**	(152,315,921)	124,434,260
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱4,295,124,940**	₱3,526,112,338	₱1,663,926,980

See accompanying Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 21)	Capital Paid in Excess of Par Value (Note 21)	Surplus Reserves (Note 30)	Surplus (Note 21)	Fair Value Reserves on Financial Assets at FVOCI (Note 8)	Remeasurement Losses on Retirement Plan (Note 24)	Equity in Remeasurement Gains on Retirement Plan of a Joint Venture (Note 10)	Equity in Hedge Reserves of a Joint Venture (Note 10)	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 (loss) for the year	–	–	–	**4,531,061,864**	**119,577,092**	**(380,650,955)**	**3,300,960**	**21,851,794**	**(15,815)**	**4,295,124,940**
Cash dividends (Note 21)	–	–	–	**(1,280,578,248)**	–	–	–	–	–	**(1,280,578,248)**
Appropriation of surplus to trust business (Note 30)	–	–	**2,419,758**	**(2,419,758)**	–	–	–	–	–	–
Balance at December 31, 2023	**₱4,268,594,160**	**₱11,418,563,257**	**₱1,046,398,969**	**₱24,455,554,572**	**₱70,794,457**	**(₱1,129,174,728)**	**₱6,178,352**	**₱9,707,213**	**₱7,541,664**	**₱40,154,157,916**
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 (loss) for the year	–	–	–	3,678,428,259	(51,192,525)	(115,638,289)	–	–	14,514,893	3,526,112,338
Cash dividends (Note 21)	–	–	–	(1,280,578,248)	–	–	–	–	–	(1,280,578,248)
Appropriation of surplus to trust business (Note 30)	–	–	2,507,747	(2,507,747)	–	–	–	–	–	–
Balance at December 31, 2022	₱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
Balance at January 1, 2021	₱4,268,594,160	₱11,418,563,257	₱1,039,166,094	₱18,555,539,349	₱13,058,180	(₱726,238,329)	(₱1,285,176)	(₱35,097,280)	(₱21,571,852)	₱34,510,728,403
Total comprehensive income (loss) for the year	–	–	–	1,539,492,720	(10,648,290)	93,352,845	4,162,568	22,952,699	14,614,438	1,663,926,980
Cash dividends (Note 21)	–	–	–	(1,280,578,249)	–	–	–	–	–	(1,280,578,249)
Appropriation of surplus to trust business (Note 30)	–	–	2,305,370	(2,305,370)	–	–	–	–	–	–
Balance at December 31, 2021	₱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

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱4,889,025,369**	₱4,796,963,647	₱3,265,747,428
Adjustments to reconcile income before income tax to net cash provided by operations:			
Provision for credit and impairment losses (Note 15)	**1,451,089,796**	1,306,242,436	3,070,678,224
Amortization of premium (discount) on financial assets at fair value through other comprehensive income and investment securities at amortized cost	**(2,448,385,863)**	(2,414,610,975)	(1,283,775,979)
Depreciation (Note 11)	**840,135,760**	755,952,721	836,327,579
Loss (gain) on foreclosure and sale of:			
Investment properties (Note 12)	**(361,931,299)**	(801,738,724)	(571,276,769)
Chattel mortgage properties (Note 14)	**(619,971,252)**	(700,214,707)	(142,185,112)
Accretion of modified loans (Notes 9 and 23)	**(70,125,024)**	(107,007,086)	(134,649,231)
Amortization of:			
Intangible assets (Note 13)	**106,212,859**	102,850,715	113,649,164
Debt issuance costs (Note 17)	**1,550,061**	14,836,617	31,156,411
Accretion of lease liabilities (Note 25)	**78,902,394**	79,873,386	85,201,992
Share in net income of a joint venture (Note 10)	**(86,340,894)**	(83,418,474)	(41,914,529)
Realized loss (gain) on sale of financial assets at fair value through other comprehensive income (FVOCI) and amortized cost (Note 8)	**(677,047)**	2,499,021	(15,711,131)
Gain on sale of property and equipment (Note 11)	**(3,895,058)**	(12,079,779)	(2,042,084)
Fair value loss (gain) on fair value through profit or loss investments (Note 8)	**(1,763,136)**	8,826	5,488
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Fair value through profit or loss investments	**(412,499,302)**	–	–
Loans and receivables	**(16,690,866,036)**	(2,904,935,501)	25,570,222,978
Other assets	**(25,085,315)**	127,575,882	(193,933,191)
Increase (decrease) in:			
Deposit liabilities	**(24,149,496,905)**	(3,016,581,657)	49,338,695,929
Treasurer's, cashier's and manager's checks	**499,839,859**	420,594,802	62,312,575
Accrued taxes, interest and other expenses	**157,320,735**	821,474,754	(98,156,780)
Other liabilities	**(313,236,832)**	751,987,887	(498,574,337)
Cash generated from (used in) operations	**(37,160,197,130)**	(859,726,209)	79,391,778,625
Income taxes paid	**(1,208,573,920)**	(783,396,863)	(634,121,985)
Dividends received from joint venture investment (Note 10)	**57,599,971**	30,059,985	11,579,995
Net cash provided by (used in) operating activities	**(38,311,171,079)**	(1,613,063,087)	78,769,236,635
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
Financial assets at FVOCI	**(522,049,795,033)**	(596,433,148,029)	(486,598,968,817)
Investment securities at amortized cost	**(890,227,702)**	(8,626,650,004)	(7,842,285,003)
Property and equipment (Note 11)	**(388,426,720)**	(332,839,077)	(118,057,916)
Other intangible assets (Note 13)	**(70,519,156)**	(75,548,530)	(33,699,129)
Proceeds from sale/maturities of:			
Financial assets at FVOCI (Note 8)	**540,298,330,000**	588,538,027,651	437,165,080,000
Chattel mortgage properties (Note 14)	**2,006,025,248**	2,073,485,973	4,152,276,913
Investment securities at amortized cost	**1,027,002,760**	47,454,850	1,128,720,734
Investment properties (Note 12)	**780,498,824**	923,283,316	986,515,245
Property and equipment (Note 11)	**51,992,160**	99,482,403	28,485,973
Net cash provided by (used in) investing activities	**20,764,880,381**	(13,786,451,447)	(51,131,932,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Settlement of bonds payable	**(4,650,000,000)**	–	(6,300,000,000)
Dividends paid (Note 21)	**(1,280,578,248)**	(1,280,578,248)	(1,280,578,249)
Payment of lease liabilities (Notes 25 and 32)	**(533,555,296)**	(558,996,040)	(479,330,246)
Settlement of bills payable (Note 32)	**(5,981,745,057)**	(8,664,527,168)	(413,930,000)
Availments of bills payable (Note 32)	**5,067,696,543**	9,850,472,143	413,930,000
Net cash provided by (used in) financing activities	**(7,378,182,058)**	(653,629,313)	(8,059,908,495)
Effect of exchange rate differences	**(399)**	756,081	485,670

(Forward)

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2023	2022	2021
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(₱24,924,473,155)**	(₱16,052,387,766)	₱19,577,881,810
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	**1,930,720,274**	2,801,335,279	2,841,851,535
Due from Bangko Sentral ng Pilipinas - gross (Notes 7 and 16)	**37,553,243,574**	52,428,888,060	31,689,964,554
Due from other banks - gross	**2,925,163,812**	1,368,023,210	1,575,447,188
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**2,669,609,031**	4,532,877,908	5,445,979,370
	45,078,736,691	61,131,124,457	41,553,242,647
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	**1,653,554,961**	1,930,720,274	2,801,335,279
Due from Bangko Sentral ng Pilipinas - gross (Notes 7 and 16)	**9,745,633,911**	37,553,243,574	52,428,888,060
Due from other banks - gross	**1,765,438,984**	2,925,163,812	1,368,023,210
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**6,989,635,680**	2,669,609,031	4,532,877,908
	₱20,154,263,536	₱45,078,736,691	₱61,131,124,457

OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid	**₱5,786,661,627**	₱2,820,995,599	₱2,188,101,637
Interest received	**15,417,117,332**	12,782,470,531	14,065,718,328

See accompanying Notes to Financial Statements.

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 December 31, 2023 and 2022, the Bank had 250 branches. In 2023, the Bank had 271 Automated Teller Machines (ATMs) in the branches (on-site) and 285 in other locations (off-site) bringing its total number of ATMs to 556 as of December 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 on June 30, 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 December 31, 2023 and 2022, Metropolitan Bank & Trust Company (MBTC), the Bank's ultimate parent, owned 88.38% of the Bank.

2. **Material Accounting Policy Information**

Basis of Preparation

The accompanying 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 financial assets at fair value through other comprehensive income (FVOCI) that have been measured at fair value. All values are rounded to the nearest peso unless otherwise stated.

The 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 RBU and FCDU is Philippine Peso (PHP) 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 (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

NOTES TO FINANCIAL STATEMENTS

The financial statements provide comparative information in respect of the previous period. In addition, the Bank presents an additional statement of condition at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

Statement of Compliance

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

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 20.

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, 2023. 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 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.

- 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.

- 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).

- Amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules*

  The amendments introduce a mandatory exception in PAS 12 from recognizing and disclosing deferred tax assets and liabilities related to Pillar Two income taxes.

  The amendments also clarify that PAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two Model Rules published by the Organization for Economic Cooperation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes. Such tax legislation, and the income taxes arising from it, are referred to as ‘Pillar Two legislation’ and ‘Pillar Two income taxes’, respectively.

  The temporary exception from recognition and disclosure of information about deferred taxes and the requirement to disclose the application of the exception, apply immediately and retrospectively upon adoption of the amendments in June 2023.

  Meanwhile, the disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023.

Summary of Material Accounting Policies

<u>Foreign Currency Translation</u>
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.

<u>RBU</u>
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

NOTES TO FINANCIAL STATEMENTS

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 4.

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.

Cash and Cash Equivalents

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.

Financial Instruments - Initial Recognition and Subsequent Measurement

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.

NOTES TO FINANCIAL STATEMENTS

Financial Instruments – Classification and Subsequent Measurement
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).

Investments at FVTPL
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 December 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

NOTES TO FINANCIAL STATEMENTS

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.

<u>Repurchase and Reverse Repurchase Agreements</u>
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.

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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

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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.

Property and Equipment

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.

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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.

Leases

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.

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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.

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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.

Common Stock
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.

Revenue Recognition
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.

Revenue outside the scope of PFRS 15
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

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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.

Provisions
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'.

Contingent Liabilities and Contingent Assets
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.

Debt Issue Costs
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.

Income Taxes
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.

NOTES TO FINANCIAL STATEMENTS

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.

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

Effective beginning on or after January 1, 2024

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

  The amendments clarify:
  - 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.
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right.
  - 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.

- 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.

- Amendments to PAS 7 and PFRS 7*, Disclosures: Supplier Finance Arrangements*

  The amendments specify disclosure requirements to enhance the current requirements, which are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2024. 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.

NOTES TO FINANCIAL STATEMENTS

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 FSRSC 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.

- Amendments to PAS 21*, Lack of exchangeability*

The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking.

The amendments are effective for annual reporting periods beginning on or after January 1, 2025. Earlier adoption is permitted and that fact must be disclosed. When applying the amendments, an entity cannot restate comparative information.

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 and Sustainability 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. **Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the financial statements in accordance with PFRS requires the management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent assets and contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods. The effects of any change in judgments, estimates and assumptions are reflected in the financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Bank's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

(a) *Fair value of financial instruments*

When the fair values of financial assets and financial liabilities recorded in the statement of condition or disclosed in the notes to financial statements cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility for longer-dated derivatives and discount rates, prepayments and default rates assumptions. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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

(b) *Classification of financial assets*

The Bank classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

The Bank performs the business model assessment based on observable factors such as:

- Performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel
- Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- Compensation of business units whether based on the fair value of the assets managed or on the contractual cash flows collected
- Expected frequency, value and timing of sales

In performing the SPPI test, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, the period for which the interest rate is set, contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms and other features that may modify the consideration for the time value of money.

NOTES TO FINANCIAL STATEMENTS

(c) *Leases*

Bank as lessor

The Bank has entered into commercial property leases on its investment properties portfolio and over various items of furniture, fixtures and equipment. The Bank has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Bank as lessee

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.

Extension and termination options

The Bank has several lease contracts that include extension and termination options. The Bank applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors such as leasehold improvements and location that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassess the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Estimating the IBR for lease liabilities

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR for lease liabilities is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Bank estimates the IBR for lease liabilities using observable inputs (by reference to prevailing risk-free rates) adjusted to take into account the entity's credit risk (i.e., credit spread).

The carrying values of the Bank's right-of-use assets and lease liabilities are disclosed in Notes 11, 19 and 25, respectively.

(d) *Evaluation of business model in managing financial assets*

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for investment and trading activities consistent with its risk appetite.

In determining the classification of a financial instrument under PFRS 9, the Bank developed business models which reflect how it manages its portfolio of financial instruments. The Bank's business models need not be assessed at entity level or as a whole but applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument). The Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank.

In addition, PFRS 9 emphasizes that if more than an infrequent and more than an insignificant sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect (HTC) business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's objective for the business model.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of condition date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

(a) Credit losses on financial assets

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Significant factors affecting the estimates on the ECL model include:

- Segmentation of the portfolio, where the appropriate model or ECL approach is used
- The criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment. The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs. In 2022, the Bank redeveloped its ECL models covering the pandemic period data to ensure long-run effectivity of the ECL parameters.
- Determination of associations between macroeconomic scenarios and economic inputs and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

The ECL model performance is reviewed periodically, and appropriate measures are taken to ensure provisions for credit losses are adequate.

The gross carrying amounts of financial assets subject to ECL as of December 31, 2023 and the related allowance for credit losses are disclosed in Notes 5 and 15, respectively.

(b) Impairment of investment properties and chattel mortgage properties

The Bank assesses impairment on its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

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

NOTES TO FINANCIAL STATEMENTS

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the fair value less costs to sell for property and equipment, investment properties and chattel mortgage properties. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The carrying values of the Bank's investment properties and chattel mortgage properties are disclosed in Notes 12 and 14, respectively.

(c) *Present value of retirement obligation*
The cost of defined benefit pension plans as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of condition date.

In determining the appropriate discount rate, management considers the interest rates of Philippine government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The details of assumptions used in the actuarial valuation and carrying value of the net pension liability are disclosed in Note 24.

(d) *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The recognized net deferred assets and unrecognized deferred tax assets for the Bank are disclosed in Note 27.

(e) *Contingent liabilities*
The Bank is a defendant in legal actions arising from its normal business activities. Management believes that the ultimate liability, if any, resulting from these cases will not have a material effect on the Bank's financial statements are disclosed in Note 31.

4. 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.

NOTES TO FINANCIAL STATEMENTS

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. The discount rates used range from 3.00% to 41.52% and 4.83% to 36.22% in 2023 and 2022, respectively.

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.

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 discount rates used are the following:

	Discount Rates	
	2023	2022
Bonds payable	**4.50%**	4.50%
Time deposits	**0.25% to 6.25%**	0.13% to 6.00%

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.

NOTES TO FINANCIAL STATEMENTS

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):

	December 31, 2023				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial Assets					
FVTPL investments					
HFT - government securities	**₱414,298**	**₱414,298**	**₱–**	**₱–**	**₱414,298**
Financial assets at FVOCI					
Government debt securities	**52,699,129**	**50,889,402**	**1,809,727**	**-**	**52,699,129**
Private debt securities	**1,633,147**	**1,633,147**	**-**	**-**	**1,633,147**
Equity securities	**27,418**	**21,199**	**6,219**	**-**	**27,418**
	₱54,773,992	**₱52,958,046**	**₱1,815,946**	**₱-**	**₱54,773,992**
Assets for which fair values are disclosed:					
Financial Assets					
Investment securities at amortized cost					
Government	**₱27,875,963**	**₱18,767,093**	**₱8,088,712**	**₱–**	**₱26,855,805**
Private	**2,017,205**	**1,984,906**	**–**	**–**	**1,984,906**
Loans and receivables					
Receivables from customers					
Consumption loans	**71,139,977**	**–**	**–**	**81,231,497**	**81,231,497**
Real estate loans	**40,214,290**	**–**	**–**	**61,703,987**	**61,703,987**
Commercial loans	**6,521,064**	**–**	**–**	**87,431,028**	**87,431,028**
Personal loans	**1,629,939**	**–**	**–**	**2,247,444**	**2,247,444**
Sales contract receivable	**6,380**	**–**	**–**	**6,764**	**6,764**
Security deposits	**198,884**	**–**	**–**	**285,800**	**285,800**
Non-Financial Assets					
Investment properties	**3,934,950**	**–**	**–**	**6,617,966**	**6,617,966**
	₱153,538,652	**₱20,751,999**	**₱8,088,712**	**₱239,524,486**	**₱268,365,197**
Liabilities for which fair values are disclosed:					
Deposit liabilities - time	**₱112,749,126**	**₱–**	**₱–**	**₱116,153,413**	**₱116,153,413**
Deposit liabilities - LTNCD	**5,084,218**	**–**	**–**	**5,111,755**	**5,111,755**
Bonds payable	**-**	**–**	**–**	**-**	**-**
Bills payable	**271,896**	**–**	**–**	**310,561**	**310,561**
	₱118,105,240	**₱–**	**₱–**	**₱121,575,729**	**₱121,575,729**

	December 31, 2022				
	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 December 31, 2023 and 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 December 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.

5. **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.

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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.

Credit Approval

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.

NOTES TO FINANCIAL STATEMENTS

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 February 2022, Russia launched a full-scale invasion of Ukraine. The United Nations reacted imposing sanctions to Russia. This caused a major disruption in the value chain and kicked start a significant rise in inflation in the year. The war dragged-on much longer than anticipated. This prompted the US Treasury to increase its interest rates to combat rising inflation. The Philippine economic outlook was unclear as the government now has to manage a careful balancing act of increasing interest rates to dampen the velocity of inflation and combat the weakening peso without hurting the economy. Despite these troubling signals globally, the Bank's asset quality improved compared to 2021 due to the Bank's portfolio management initiatives. Provisioning models for the bank's consumer loan portfolio were adjusted to account for economic uncertainty. 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.

In 2023, the Philippine economy exhibited resilience and growth despite global challenges. Steady expansion in GDP was observed but inflation and external uncertainties persisted necessitating government's careful economic management. The Bank reviewed and recalibrated its expected credit loss models to ensure the sufficiency of its calculated provisions and appropriateness of the models in light of the changing economic landscape.

Maximum Exposure to Credit Risk

The tables below show the analysis of the maximum exposure to credit risk of the Bank's financial instruments, excluding those where the carrying values as reflected in the statement of condition and related notes already represent the financial instrument's maximum exposure to credit risk, after taking into account collateral held or other credit enhancements (in thousands):

	2023			
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	**Financial Effect of Collateral or Credit Enhancement**
Due from other banks	**₱1,764,230**	**₱3,258,145**	**₱469,833**	**₱1,294,397**
Receivables from customers				
Consumption loans	**71,139,977**	**83,233,369**	**1,339,115**	**69,800,862**
Real estate loans	**40,214,290**	**65,152,648**	**9,945,343**	**30,268,947**
Commercial loans	**6,521,064**	**10,749,329**	**3,482,338**	**3,038,726**
Other receivables				
Accrued interest receivable	**2,326,463**	**1,022,105**	**1,304,460**	**1,022,003**
Sales contract receivable	**6,380**	**20,340**	**180**	**6,200**
Total credit exposure	**₱121,972,404**	**₱163,435,936**	**₱16,541,269**	**₱105,431,135**

	2022			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Due from other banks	₱2,910	₱3,126	₱1,333	₱1,577
Receivables from customers				
Consumption loans	57,405,346	67,970,467	2,231,688	55,173,658
Real estate loans	40,973,925	66,866,090	9,942,017	31,031,908
Commercial loans	6,211,280	7,379,602	4,447,266	1,764,014
Other receivables				
Accrued interest receivable	2,548,212	763,890	1,784,322	763,890
Sales contract receivable	10,746	30,945	373	10,373
Total credit exposure	₱107,152,419	₱143,014,120	₱18,406,999	₱88,745,420

NOTES TO FINANCIAL STATEMENTS

An analysis of the maximum credit risk exposure relating to financial assets under Stage 3 as of December 31, 2023 and 2022 is shown below:

	2023			
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	**Financial Effect of Collateral or Credit Enhancement**
Receivables from customers				
Consumption loans	**₱1,298,961**	**₱1,972,796**	**₱73,741**	**₱1,225,220**
Real estate loans	**1,106,037**	**1,693,222**	**349,437**	**756,600**
Commercial loans	**119,247**	**546,727**	**10,226**	**109,021**
Other receivables				
Accrued interest receivable	**99,606**	**63,094**	**36,512**	**63,094**
Sales contract receivable	**5,756**	**12,243**	**–**	**5,756**
Total credit exposure	**₱2,629,607**	**₱4,288,082**	**₱469,916**	**₱2,159,691**

	2022			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Receivables from customers				
Consumption loans	₱972,919	₱1,345,019	₱102,326	₱870,593
Real estate loans	1,215,207	2,021,570	373,439	841,768
Commercial loans	175,718	435,799	110,434	65,284
Other receivables				
Accrued interest receivable	87,668	35,440	52,228	35,440
Sales contract receivable	8,081	16,556	–	8,081
Total credit exposure	₱2,459,593	₱3,854,384	₱638,427	₱1,821,166

Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding acceptability of types of collateral and valuation parameters.

The main types of collaterals obtained are as follows:

- For Due from other banks: investment securities
- For SPURA: investment securities
- For commercial lending: mortgages over real estate properties, deposit accounts and securities
- For consumer lending: mortgages over real estate and chattel

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for credit and impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion and proceeds are used to repay or reduce the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The Bank holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and generally are updated every two years and when a loan is assessed to be impaired, whenever applicable. The Bank is not allowed to sell or re-pledge collateral held under SPURA in the absence of default by the counterparty. Collateral is usually not held against holdings in investment securities, and no such collateral was held as of December 31, 2023 and 2022.

Concentration of risk is managed by borrower, by group of borrowers, by geographical region and by industry sector. As of December 31, 2023 and 2022, the maximum credit exposure to any borrower, before taking into account any collateral or other credit enhancement amounted to ₱1.0 billion.

The distribution of the Bank's financial assets before taking into account any collateral held or other credit enhancements can be analyzed by the following geographical regions (in thousands):

	2023				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Luzon	**₱107,777,116**	**₱18,500,708**	**₱84,681,046**	**₱254,841**	**₱211,213,711**
Visayas	**10,675,617**	**–**	**–**	**–**	**10,675,617**
Mindanao	**10,475,215**	**–**	**–**	**–**	**10,475,215**
	128,927,948	**18,500,708**	**84,681,046**	**254,841**	**232,364,543**
Less allowance for credit losses	**6,163,536**	**1,209**	**13,886**	**–**	**6,178,631**
Total	**₱122,764,412**	**₱18,499,499**	**₱84,667,160**	**₱254,841**	**₱226,185,912**

* Composed of due from BSP and due from other banks, interbank loans receivable and SPURA
** Composed of FVTPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits, other investments, and shortages) and stand-by credit lines amounting to ₱41.1 million

	2022				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Luzon	₱98,102,943	₱43,148,016	₱100,101,609	₱325,350	₱241,677,918
Visayas	8,264,719	–	–	–	8,264,719
Mindanao	9,109,783	–	–	–	9,109,783
	115,477,445	43,148,016	100,101,609	325,350	259,052,420
Less allowance for credit losses	5,780,140	14,671	18,573	–	5,813,384
Total	₱109,697,305	₱43,133,345	₱100,083,036	₱325,350	₱253,239,036

* Composed of due from BSP and due from other banks, interbank loans receivable and SPURA
** Composed of FVTPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits, other investments, and shortages) and stand-by credit lines amounting to ₱122.0 million

Additionally, the tables below show the distribution of the Bank's financial assets and off-balance sheet items before taking into account any collateral or other credit enhancements analyzed by industry sector as of December 31, 2023, and 2022 (in thousands):

	2023				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Financial and insurance activities	**₱2,037,250**	**₱18,500,708**	**₱84,681,046**	**₱213,741**	**₱105,432,745**
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	**77,672,482**	**–**	**–**	**–**	**77,672,482**
Real estate activities	**37,060,347**	**–**	**–**	**–**	**37,060,347**
Wholesale and retail trade; repair of motor vehicles and motorcycles	**2,364,545**	**–**	**–**	**–**	**2,364,545**
Electricity, gas, steam and air-conditioning supply	**1,034,433**	**–**	**–**	**–**	**1,034,433**
Transportation and storage	**₱918,610**	**₱–**	**₱–**	**₱–**	**₱918,610**
Construction	**611,870**	**–**	**–**	**41,100**	**652,970**
Manufacturing	**569,671**	**–**	**–**	**–**	**569,671**
Administrative and support service activities	**316,974**	**–**	**–**	**–**	**316,974**
Accommodation and food service activities	**196,318**	**–**	**–**	**–**	**196,318**
Professional, scientific and technical services	**151,628**	**–**	**–**	**–**	**151,628**
Education	**131,299**	**–**	**–**	**–**	**131,299**
Human health and social work activities	**93,008**	**–**	**–**	**–**	**93,008**
Information and communication	**96,509**	**–**	**–**	**–**	**96,509**
Arts, entertainment and recreation	**79,617**	**–**	**–**	**–**	**79,617**
Agricultural, forestry and fishing	**76,654**	**–**	**–**	**–**	**76,654**
Water supply, sewage, waste management and remediation activities	**66,064**	**–**	**–**	**–**	**66,064**
Mining and quarrying	**5,725**	**–**	**–**	**–**	**5,725**
Other service activities	**5,444,944**	**–**	**–**	**–**	**5,444,944**
	128,927,948	**18,500,708**	**84,681,046**	**254,841**	**232,364,543**
Less allowance for credit losses	**6,163,536**	**1,209**	**13,886**	**–**	**6,178,631**
Total	**₱122,764,412**	**₱18,499,499**	**₱84,667,160**	**₱254,841**	**₱226,185,912**

* Composed of due from BSP and due from other banks, interbank loans receivable and SPURA
** Composed of FVTPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines amounting to ₱41.1 million

NOTES TO FINANCIAL STATEMENTS

	2022				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Financial and insurance activities	₱1,812,133	₱43,148,016	₱100,101,609	₱203,350	₱145,265,108
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	65,158,520	–	–	–	65,158,520
Real estate activities	37,931,267	–	–	–	37,931,267
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,040,122	–	–	–	2,040,122
Electricity, gas, steam and air-conditioning supply	1,363,927	–	–	–	1,363,927
Transportation and storage	926,381	–	–		926,381
Construction	616,325	–	–	122,000	738,325
Manufacturing	573,213	–	–	–	573,213
Administrative and support service activities	333,497	–	–	–	333,497
Accommodation and food service activities	191,686	–	–	–	191,686
Professional, scientific and technical services	133,147	–	–	–	133,147
Education	119,977	–	–	–	119,977
Human health and social work activities	115,274	–	–	–	115,274
Information and communication	76,092	–	–	–	76,092
Arts, entertainment and recreation	73,371	–	–	–	73,371
Agricultural, forestry and fishing	71,649	–	–	–	71,649
Water supply, sewage, waste management and remediation activities	44,661	–	–	–	44,661
Mining and quarrying	4,779	–	–	–	4,779
Other service activities	3,891,424	–	–	–	3,891,424
	115,477,445	43,148,016	100,101,609	325,350	259,052,420
Less allowance for credit losses	5,780,140	14,671	18,573	–	5,813,384
Total	₱109,697,305	₱43,133,345	₱100,083,036	₱325,350	₱253,239,036

* Composed of due from BSP and due from other banks, interbank loans receivable and SPURA
** Composed of FVTPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines amounting to ₱122.0 million

Credit Quality
The Bank uses the standard below in defining credit quality.

High Grade exposures show low levels of expected loss. For loans, these accounts should neither be past due nor impaired. The Bank classifies those accounts under current or 1 to 30 days past due status and are not impaired (Stage 1 & 2).

Standard Grade exposures show moderate levels of expected loss. For loans, these accounts should neither be past due nor impaired.

Sub Standard Grade requires a special degree of attention given the increased risk of default. For loans, these accounts should neither be past due nor impaired.

Past Due but Not Credit Impaired are applicable to loan accounts which are classified as delinquent (31-90 days past due) but are not subject to impairment (Stage 2) as of statement of condition date.

Past Due and Credit Impaired. These include loan accounts considered to be delinquent (91+ days past due), non-performing as defined by BSP Circular No. 941.

Description of the internal credit rating system for loans, receivables and stand-by credit lines:

Internal Credit Rating System (ICRS)
The Bank rates accounts on a scale of 1 to 10, with 1 being the best, based on the Board-approved credit ratings which utilize the expected credit loss and qualitative assessments. ICRS rating assessment considers both borrower and facility features.

High Grade (ICRS Rating 1 - 4)
1 - Excellent
An excellent rating is given to a borrower with a very low probability of going into default and/or low loss given default. The Bank's internal rating system has given an outstanding rating to the borrower, indicative of excellent ability to meet credit obligation in full and consistently meet payment

commitments. Accounts with excellent rating may have collateral, further diminishing any losses in case of a default.

2 - Strong
This rating is given to borrowers with low probability of going into default in the coming year with low to moderate loss given default. The Bank's internal rating system has given a high rating to the borrower. The borrower has the ability to meet credit obligation in full, except that the borrower may have a history of missing a payment.

3 - Good
This rating is given to borrowers with low to moderate probability of going into default in the coming year with moderate loss given default. These are largely characterized by borrowers with good rating and have historically missed several payments.

4 - Satisfactory
A 'satisfactory' rating is given to a borrower where clear risk elements exist and probability of default is somewhat greater with moderate to high loss given default. These are characterized by borrowers with good rating with a history of default.

<u>Standard Grade (ICRS Rating 5)</u>
5 - Acceptable
An 'acceptable' rating is given to a borrower whose risk elements are sufficiently pronounced although borrower should still be expected to meet their credit obligations in full. These are characterized by borrowers with moderate rating.

<u>Substandard Grade (ICRS Rating 6-8)</u>
6 or 7 - Loan Especially Mentioned
An account assessed to have potential weaknesses which when left uncorrected, may affect the repayment of the account and thus increase credit risk to the Bank, will be assigned this rating.

8 - Substandard
These accounts or portion thereof involves a substantial and an unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. These accounts show possibility of future loss to the Bank unless given closer supervision and well-defined weaknesses that jeopardize the account liquidation.

Past Due but Not Credit Impaired
Otherwise known as under-performing loans, these accounts are characterized as showing signs of deterioration. These include loans that are delinquent by 31-90 days and are not subject to impairment (Stage 2) regardless of ICRS rating.

Past Due and Credit Impaired
Otherwise known as non-performing loans, these accounts are already impaired. These include accounts under Stage 3 ECL, delinquent by 91+ days and considered non-performing as defined by BSP Circular No. 941 regardless of ICRS rating. The following credit ratings will always be classified as credit impaired:

9 - Doubtful
Given to an account assessed to have characteristics where collection and liquidation in full is highly improbable and in which substantial loss is probable.

10 - Loss
Given to an account assessed to loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets are not warranted.

NOTES TO FINANCIAL STATEMENTS

The credit quality of receivables from customers, gross of allowance for credit losses, as of December 31, 2023 and 2022 follows (in thousands):

	2023						
	Stage 1		Stage 2				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Consumption Loans:							
High Grade	**₱–**	**₱64,577,623**	**₱–**	**₱–**	**₱–**	**₱–**	**₱64,577,623**
Standard Grade	**–**	**2,288,492**	**–**	**–**	**–**	**–**	**2,288,492**
Sub-standard Grade	**–**	**–**	**–**	**2,220,334**	**–**	**–**	**2,220,334**
Past Due but Not Impaired	**–**	**–**	**–**	**3,382,343**	**–**	**–**	**3,382,343**
Non-performing Individually Impaired	**–**	**–**	**–**	**–**	**2,588,654**	**–**	**2,588,654**
	–	**66,866,115**	**–**	**5,602,677**	**2,588,654**	**–**	**75,057,446**
Real Estate Loans:							
High Grade	**–**	**21,175,066**	**–**	**13,471,061**	**–**	**–**	**34,646,127**
Standard Grade	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Sub-standard Grade	**–**	**–**	**–**	**3,961,224**	**–**	**–**	**3,961,224**
Past Due but Not Impaired	**–**	**–**	**–**	**1,268,311**	**–**	**–**	**1,268,311**
Non-performing Individually Impaired	**–**	**–**	**–**	**–**	**1,301,558**	**–**	**1,301,558**
	–	**21,175,066**	**–**	**18,700,596**	**1,301,558**	**–**	**41,177,220**
Commercial Loans:							
High Grade	**–**	**6,097,560**	**–**	**–**	**–**	**–**	**6,097,560**
Standard Grade		**151,542**			**–**	**–**	**151,542**
Sub-standard Grade	**–**	**–**	**–**	**58,169**	**–**	**–**	**58,169**
Past Due but Not Impaired	**–**	**–**	**–**	**137,882**	**–**	**–**	**137,882**
Non-performing Individually Impaired	**–**	**–**	**–**		**304,086**	**–**	**304,086**
	–	**6,249,102**	**–**	**196,051**	**304,086**	**–**	**6,749,239**
Personal Loans:							
High Grade	**–**	**937,607**	**–**	**–**	**–**	**–**	**937,607**
Standard Grade		**–**	**–**	**–**	**–**	**–**	**–**
Sub-standard Grade	**–**	**–**	**–**	**790,383**	**–**	**–**	**790,383**
Past Due but Not Impaired	**–**	**–**	**–**	**176,386**	**–**	**–**	**176,386**
Non-performing Individually Impaired	**–**	**–**	**–**	**–**	**198,723**	**–**	**198,723**
	–	**937,607**	**–**	**966,769**	**198,723**	**–**	**2,103,099**
Total Receivables from Customer:							
High Grade	**–**	**92,787,856**	**–**	**13,471,061**	**–**	**–**	**106,258,917**
Standard Grade		**2,440,034**			**–**	**–**	**2,440,034**
Sub-standard Grade	**–**	**–**	**–**	**7,030,110**	**–**	**–**	**7,030,110**
Past Due but Not Impaired	**–**	**–**	**–**	**4,964,922**	**–**	**–**	**4,964,922**
Non-performing Individually Impaired	**–**	**–**	**–**	**–**	**4,393,021**	**–**	**4,393,021**
	₱–	**₱95,227,890**	**–**	**₱25,466,093**	**₱4,393,021**	**–**	**₱125,087,004**

	2022						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Consumption Loans:							
High Grade	₱–	₱52,004,129	₱–	₱–	₱–	₱–	₱52,004,129
Standard Grade	–	1,113,067	–	–	–	–	1,113,067
Sub-standard Grade	–	–	–	3,536,376	–	–	3,536,376
Past Due but Not Impaired	–	–	–	2,055,207	–	–	2,055,207
Non-performing Individually Impaired	–	–	–	–	1,911,793	–	1,911,793
	–	53,117,196	–	5,591,583	1,911,793	–	60,620,572
Real Estate Loans:							
High Grade	–	22,511,454	–	12,299,289	–	–	34,810,743
Standard Grade	–	–	–	–	–	–	–
Sub-standard Grade	–	–	–	4,477,362	–	–	4,477,362
Past Due but Not Impaired	–	–	–	1,265,122	–	–	1,265,122
Non-performing Individually Impaired	–	–	–	–	1,527,167	–	1,527,167
	–	22,511,454		18,041,773	1,527,167	–	42,080,394
Commercial Loans:							
High Grade	–	5,502,455	–	–	–	–	5,502,455
Standard Grade	–	56,913	–	–	–	–	56,913
Sub-standard Grade	–	118,130	–	403,688	–	–	521,818
Past Due but Not Impaired	–	–	–	45,454	–	–	45,454
Non-performing Individually Impaired	–	–	–	–	352,472	–	352,472
	–	5,677,498	–	449,142	352,472	–	6,479,112
Personal Loans:							
High Grade	–	950,393	–	–	–	–	950,393
Standard Grade	–	4,085	–	–	–	–	4,085
Sub-standard Grade	–	–	–	990,700	–	–	990,700
Past Due but Not Impaired	–	–	–	31,948	–	–	31,948
Non-performing Individually Impaired	–	–	–	–	246,014	–	246,014
	–	954,478	–	1,022,648	246,014	–	2,223,140
Total Receivables from Customer:							
High Grade	–	80,968,431	–	12,299,289	–	–	93,267,720
Standard Grade	–	1,174,065	–	–	–	–	1,174,065
Sub-standard Grade	–	118,130	–	9,408,126	–	–	9,526,256
Past Due but Not Impaired	–	–	–	3,397,731	–	–	3,397,731
Non-performing Individually Impaired	–	–	–	–	4,037,446	–	4,037,446
	₱–	₱ 82,260,626	₱–	₱ 25,105,146	₱ 4,037,446	₱–	₱111,403,218

NOTES TO FINANCIAL STATEMENTS

The credit quality of other receivables, gross of allowance for credit losses, as of December 31, 2023 and 2022 follows (in thousands):

	2023						
	Stage 1		Stage 2				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Accrued Interest Receivable:							
High Grade	**₱–**	**₱1,722,201**	**₱–**	**₱179,891**	**₱–**	**₱–**	**₱1,902,092**
Standard Grade	–	**26,351**	–		–	–	**26,351**
Sub-standard Grade	–	**577**	–	**225,240**	–	–	**225,817**
Past Due but Not Impaired	–	–	–	**106,696**	–	–	**106,696**
Non-performing Individually Impaired	–	–	–	–	**137,734**	–	**137,734**
	–	**1,749,129**	–	**511,827**	**137,734**	–	**2,398,690**
Accounts Receivable:							
High Grade	–	**875,732**	–	**2,139**	–	–	**877,871**
Standard Grade	–	**542**	–	–	–	–	**542**
Sub-standard Grade	–	**40**	–	**7,548**	–	–	**7,588**
Past Due but Not Impaired	–	–	–	**21,402**	–	–	**21,402**
Non-performing Individually Impaired	–	–	–	–	**485,657**	–	**485,657**
	–	**876,314**	–	**31,089**	**485,657**	–	**1,393,060**
Sales Contract Receivable:							
High Grade	–	**421**	–	–	–	–	**421**
Standard Grade	–	–	–	–	–	–	–
Sub-standard Grade	–	–	–			–	–
Past Due but Not Impaired	–	–	–	**228**	–	–	**228**
Non-performing Individually Impaired	–	–	–	–	**6,302**	–	**6302**
	–	**421**	–	**228**	**6302**	–	**6,951**
Total Other Receivables:							
High Grade	–	**2,598,354**	–	**182,030**	–	–	**2,780,384**
Standard Grade	–	**26,893**	–	–	–	–	**26,893**
Sub-standard Grade	–	**617**	–	**232,788**	–	–	**233,405**
Past Due but Not Impaired	–	–	–	**128,326**	–	–	**128,326**
Non-performing Individually Impaired	–	–	–	–	**629,693**	–	**629,693**
	₱–	**₱2,625,864**	**₱–**	**₱543,144**	**₱629,693**	**₱–**	**₱3,798,701**

	2022						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Accrued Interest Receivable:							
High Grade	₱–	₱1,908,728	₱–	₱171,998	₱–	₱–	₱2,080,726
Standard Grade	–	9,463	–	–	–	–	9,463
Sub-standard Grade	–	353	–	271,126	–	–	271,479
Past Due but Not Impaired	–	–	–	135,885	–	–	135,885
Non-performing Individually Impaired	–	–	–	–	113,402	–	113,402
	–	1,918,544	–	579,009	113,402	–	2,610,955
Accounts Receivable:							
High Grade	–	925,416	–	3,088	–	–	928,504
Standard Grade	–	–	–	–	–	–	–
Sub-standard Grade	–	–	–	17,479	–	–	17,479
Past Due but Not Impaired	–	–	–	14,458	–	–	14,458
Non-performing Individually Impaired	–	–	–	–	491,902	–	491,902
	–	925,416	–	35,025	491,902	–	1,452,343
Sales Contract Receivable:							
High Grade	–	2,078	–	–	–	–	2,078
Standard Grade	–	–	–	–	–	–	–
Sub-standard Grade	–	–	–	600	–	–	600
Past Due but Not Impaired	–	–	–	–	–	–	–
Non-performing Individually Impaired	–	–	–	–	8,251	–	8,251
	–	2,078	–	600	8,251	–	10,929
Total Other Receivables:							
High Grade	–	2,836,222	–	175,086	–	–	3,011,308
Standard Grade	–	9,463	–	–	–	–	9,463
Sub-standard Grade	–	353	–	289,205	–	–	289,558
Past Due but Not Impaired	–	–	–	150,343	–	–	150,343
Non-performing Individually Impaired	–	–	–	–	613,555	–	613,555
	₱–	₱2,846,038	₱–	₱614,634	₱613,555	₱–	₱4,074,227

NOTES TO FINANCIAL STATEMENTS

The credit quality of other financial assets which include RCOCI, security deposits, other investments, shortages and liquidity requirement for electronic money products, gross of allowance for credit losses amounting as of December 31, 2023 and 2022 follows (in thousands):

	2023						
	Stage 1		**Stage 2**				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Other Financial Assets							
High Grade	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
Standard Grade	–	**401,014**	–	–	–	–	**401,014**
Sub-standard Grade	–	–	–	–	–	–	–
Past Due but Not Impaired	–	–	–	–	–	–	–
Non-performing Individually Impaired	–	–	–	–	–	–	–
Total	**₱–**	**₱401,014**	**₱–**	**₱–**	**₱–**	**₱–**	**₱401,014**

	2022						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Other Financial Assets							
High Grade	₱–	₱–	₱–	₱–	₱–	₱–	₱–
Standard Grade	–	203,350	–	–	–	–	203,350
Sub-standard Grade	–	–	–	–	–	–	–
Past Due but Not Impaired	–	–	–	–	–	–	–
Non-performing Individually Impaired	–	–	–	–	–	–	–
Total	₱–	₱203,350	₱–	₱–	₱–	₱–	₱203,350

Movements of receivables from customers as of December 31, 2023 and 2022 follow (in thousands):

	2023						
	Stage 1		**Stage 2**				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Consumption Loans							
Balance as of January 1, 2023	**₱–**	**₱53,117,195**	**₱–**	**₱5,591,582**	**₱1,911,795**	**₱–**	**₱60,620,572**
New assets originated	–	**34,955,414**	–	**953,344**	**583,117**	–	**36,491,875**
Assets derecognized or repaid	–	**(16,062,677)**	–	**(4,635,542)**	**(1,211,126)**	–	**(21,909,345)**
Amounts written off	–	–	–	–	**(145,656)**	–	**(145,656)**
Transfers to Stage 1	–	**973,758**	–	**(910,822)**	**(62,936)**	–	–
Transfers to Stage 2	–	**(5,152,053)**	–	**5,262,979**	**(110,926)**	–	–
Transfers to Stage 3	–	**(965,522)**	–	**(658,864)**	**1,624,386**	–	–
Balance at December 31, 2023	–	**66,866,115**	–	**5,602,677**	**2,588,654**	–	**75,057,446**
Real Estate Loans							
Balance as of January 1, 2023	–	**22,511,455**	–	**18,041,774**	**1,527,166**	–	**42,080,395**
New assets originated	–	**5,668,433**	–	**7,817**	**7,207**	–	**5,683,457**
Assets derecognized or repaid	–	**(2,147,692)**	–	**(4,087,457)**	**(351,483)**	–	**(6,586,632)**
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	**2,173,204**	–	**(2,138,138)**	**(35,066)**	–	–
Transfers to Stage 2	–	**(6,888,088)**	–	**7,310,114**	**(422,026)**	–	–
Transfers to Stage 3	–	**(142,246)**	–	**(433,514)**	**575,760**	–	–
Balance at December 31, 2023	–	**21,175,066**	–	**18,700,596**	**1,301,558**	–	**41,177,220**
Commercial Loans							
Balance as of January 1, 2023	–	**5,677,497**	–	**449,143**	**352,471**	–	**6,479,111**
New assets originated	–	**2,086,517**	–	**3,249**	**-**	–	**2,089,766**
Assets derecognized or repaid	–	**(1,611,342)**	–	**(142,344)**	**(65,952)**	–	**(1,819,638)**
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	**155,309**	–	**(154,641)**	**(668)**	–	–
Transfers to Stage 2	–	**(50,226)**	–	**52,035**	**(1,809)**	–	–
Transfers to Stage 3	–	**(8,653)**	–	**(11,391)**	**20,044**	–	–
Balance at December 31, 2023	–	**6,249,102**	–	**196,051**	**304,086**	–	**6,749,239**
Personal Loans							
Balance as of January 1, 2023	–	**954,478**	–	**1,022,648**	**246,014**	–	**2,223,140**
New assets originated	–	**708,013**	–	**219,526**	**3,478**	–	**931,017**
Assets derecognized or repaid	–	**(808,151)**	–	**(105,493)**	**(25,131)**	–	**(938,775)**
Amounts written off	–	**-**	–	**-**	**(112,283)**	–	**(112,283)**
Transfers to Stage 1	–	**161,624**	–	**(161,494)**	**(130)**	–	–
Transfers to Stage 2	–	**(63,460)**	–	**63,807**	**(347)**	–	–
Transfers to Stage 3	–	**(14,897)**	–	**(72,225)**	**87,122**	–	–
Balance at December 31, 2023	–	**937,607**	–	**966,769**	**198,723**	–	**2,103,099**
Total Receivable from Customer							
Balance at January 1, 2023	–	**82,260,625**	–	**25,105,147**	**4,037,446**	–	**111,403,218**
New assets originated	–	**43,418,377**	–	**1,183,936**	**593,802**	–	**45,196,115**
Assets derecognized or repaid	–	**(20,629,862)**	–	**(8,970,836)**	**(1,653,692)**	–	**(31,254,390)**
Amounts written off	–		–		**(257,939)**	–	**(257,939)**
Transfers to Stage 1	–	**3,463,895**	–	**(3,365,095)**	**(98,800)**	–	–
Transfers to Stage 2	–	**(12,153,827)**	–	**12,688,935**	**(535,108)**	–	–
Transfers to Stage 3	–	**(1,131,318)**	–	**(1,175,994)**	**2,307,312**	–	–
Balance at December 31, 2023	**₱–**	**₱95,227,890**	**₱–**	**₱25,466,093**	**₱4,393,021**	**₱–**	**₱125,087,004**

	2022						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Consumption Loans							
Balance as of January 1, 2022	₱–	₱43,130,181	₱–	₱11,417,686	₱3,262,487	₱–	₱57,810,354
New assets originated	–	27,083,374	–	472,701	186,914	–	27,742,989
Assets derecognized or repaid	–	(15,811,154)	–	(6,634,250)	(1,870,417)	–	(24,315,821)
Amounts written off	–	–	–	–	(616,950)	–	(616,950)
Transfers to Stage 1	–	3,331,983	–	(3,151,032)	(180,951)	–	–
Transfers to Stage 2	–	(4,143,655)	–	4,414,207	(270,552)	–	–
Transfers to Stage 3	–	(473,534)	–	(927,730)	1,401,264	–	–
Balance at December 31, 2022	–	53,117,195	–	5,591,582	1,911,795	–	60,620,572
Real Estate Loans							
Balance as of January 1, 2022	–	36,414,701	–	6,305,856	2,557,387	–	45,277,944
New assets originated	–	4,294,167	–	125,086	–	–	4,419,253
Assets derecognized or repaid	–	(3,311,981)	–	(3,309,985)	(994,836)	–	(7,616,802)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	1,078,394	–	(1,013,043)	(65,351)	–	–
Transfers to Stage 2	–	(15,740,149)	–	16,453,032	(712,883)	–	–
Transfers to Stage 3	–	(223,677)	–	(519,172)	742,849	–	–
Balance at December 31, 2022	–	22,511,455	–	18,041,774	1,527,166	–	42,080,395
Commercial Loans							
Balance as of January 1, 2022	–	6,075,829	–	682,250	627,010	–	7,385,089
New assets originated	–	1,072,066	–	7,000	–	–	1,079,066
Assets derecognized or repaid	–	(1,644,214)	–	(177,750)	(163,080)	–	(1,985,044)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	277,106	–	(251,981)	(25,125)	–	–
Transfers to Stage 2	–	(98,075)	–	209,194	(111,119)	–	–
Transfers to Stage 3	–	(5,215)	–	(19,570)	24,785	–	–
Balance at December 31, 2022	–	5,677,497	–	449,143	352,471	–	6,479,111
Personal Loans							
Balance as of January 1, 2022	–	620,482	–	1,457,899	682,973	–	2,761,354
New assets originated	–	496,951	–	158,270	13,963	–	669,184
Assets derecognized or repaid	–	(499,438)	–	(169,281)	(87,985)	–	(756,704)
Amounts written off	–	–	–	–	(450,694)	–	(450,694)
Transfers to Stage 1	–	387,595	–	(386,679)	(916)	–	–
Transfers to Stage 2	–	(49,012)	–	53,205	(4,193)	–	–
Transfers to Stage 3	–	(2,100)	–	(90,766)	92,866	–	–
Balance at December 31, 2022	–	954,478	–	1,022,648	246,014	–	2,223,140
Total Receivable from Customer							
Balance at January 1, 2022	–	86,241,193	–	19,863,691	7,129,858	–	113,234,742
New assets originated	–	32,946,558	–	763,056	200,877	–	33,910,491
Assets derecognized or repaid	–	(21,266,787)	–	(10,291,266)	(3,116,318)	–	(34,674,371)
Amounts written off	–	–	–		(1,067,644)	–	(1,067,644)
Transfers to Stage 1	–	5,075,078	–	(4,802,735)	(272,343)	–	–
Transfers to Stage 2	–	(20,030,891)	–	21,129,638	(1,098,747)	–	–
Transfers to Stage 3	–	(704,526)	–	(1,557,237)	2,261,763	–	–
Balance at December 31, 2022	₱–	₱82,260,625	₱–	₱25,105,147	₱4,037,446	₱–	₱111,403,218

Movements of other receivables as of December 31, 2023 and 2022 follow (in thousands):

	2023						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Accrued Interest Receivable							
Balance as of January 1, 2023	₱–	₱1,918,545	₱–	₱579,008	₱113,402	₱–	₱2,610,955
New assets originated	–	319,435	–	30,057	39,590	–	389,082
Assets derecognized or repaid	–	(341,725)	–	(191,930)	(67,692)	–	(601,347)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	70,955	–	(67,631)	(3,324)	–	–
Transfers to Stage 2	–	(196,578)	–	206,878	(10,300)	–	–
Transfers to Stage 3	–	(21,503)	–	(44,555)	66,058	–	–
Balance at December 31, 2023	–	1,749,129	–	511,827	137,734	–	2,398,690
Sales Contract Receivable							
Balance at January 1, 2023	–	2,077	–	600	8,252	–	10,929
New assets originated	–	–	–	–	–	–	–
Assets derecognized or repaid	–	(1,664)	–	(513)	(1,801)	–	(3,978)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	299	–	(299)	–	–	–
Transfers to Stage 2	–	(291)	–	440	(149)	–	–
Transfers to Stage 3	–	–	–	–	–	–	–
Balance at December 31, 2023	–	421	–	228	6,302	–	6,951
Total Other Receivables							
Balance at January 1, 2023	–	1,920,622	–	579,608	121,654	–	2,621,884
New assets originated	–	319,435	–	30,057	39,590	–	389,082
Assets derecognized or repaid	–	(343,389)	–	(192,443)	(69,493)	–	(605,325)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	71,254	–	(67,930)	(3,324)	–	–
Transfers to Stage 2	–	(196,869)	–	207,318	(10,449)	–	–
Transfers to Stage 3	–	(21,503)	–	(44,555)	66,058	–	–
Balance at December 31, 2023	₱–	₱1,749,550	₱–	₱512,055	₱144,036	₱–	₱2,405,641

NOTES TO FINANCIAL STATEMENTS

	2022						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Accrued Interest Receivable							
Balance as of January 1, 2022	₱–	₱2,064,357	₱–	₱676,175	₱874,680	₱–	₱3,615,212
New assets originated	–	231,352	–	15,292	6,159	–	252,803
Assets derecognized or repaid	–	(210,931)	–	(241,001)	(805,128)	–	(1,257,060)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	161,815	–	(153,923)	(7,892)	–	–
Transfers to Stage 2	–	(310,293)	–	333,844	(23,551)	–	–
Transfers to Stage 3	–	(17,755)	–	(51,379)	69,134	–	–
Balance at December 31, 2022	–	1,918,545	–	579,008	113,402	–	2,610,955
Sales Contract Receivable							
Balance at January 1, 2022	–	3,263	–	3,912	10,424	–	17,599
New assets originated	–	–	–	–	–	–	–
Assets derecognized or repaid	₱–	(₱2,528)	₱–	(₱3,942)	(₱200)	₱–	(₱6,670)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	1,425	–	–	(1,425)	–	–
Transfers to Stage 2	–	(83)	–	630	(547)	–	–
Transfers to Stage 3	–	–	–	–	–	–	–
Balance at December 31, 2022	–	2,077	–	600	8,252	–	10,929
Total Other Receivables							
Balance at January 1, 2022	–	2,067,620	–	680,087	885,104	–	3,632,811
New assets originated	–	231,352	–	15,292	6,159	–	252,803
Assets derecognized or repaid	–	(213,459)	–	(244,943)	(805,328)	–	(1,263,730)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	163,240	–	(153,923)	(9,317)	–	–
Transfers to Stage 2	–	(310,376)	–	334,474	(24,098)	–	–
Transfers to Stage 3	–	(17,755)	–	(51,379)	69,134	–	–
Balance at December 31, 2022	₱–	₱1,920,622	₱–	₱579,608	₱121,654	₱–	₱2,621,884

External Ratings

For investment securities, in ensuring quality investment portfolio, the Bank uses the credit risk rating from published data providers like Moody's, Standard & Poor's (S&P) or other reputable rating agencies.

Presented here is Moody's rating – equivalent S&P rating and other rating agencies applies:

Credit Quality					**External Rating**					
High grade	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
Standard grade	Ba1	Ba2	Ba3	B1	B2	B3				
Substandard grade	Caa1	Caa2	Caa3	Ca	C					

High grade - represents those investments which fall under any of the following grade:

Aaa - fixed income obligations are judged to be of the highest quality, with the smallest degree of risk.

Aa1, Aa2, Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1, A2, A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.

Standard grade - represents those investments which fall under any of the following grade:

Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.

B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.

Substandard grade - represents those investments which fall under any of the following grade:

Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.

Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

As of December 31, 2023 and 2022 the following tables show the credit quality of loans and advances to banks (in thousands).

	2023						
	Stage 1		**Stage 2**				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Due from BSP							
High Grade	**₱9,745,634**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱9,745,634**
Due from other banks							
High Grade	**1,765,439**	–	–	–	–	–	**1,765,439**
Total Loans and Advances to Banks							
High Grade	**₱11,511,073**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱11,511,073**

	2022						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Due from BSP							
High Grade	₱37,553,244	₱–	₱–	₱–	₱–	₱–	₱37,553,244
Due from other banks							
High Grade	2,925,163	–	–	–	–	–	2,925,163
Total Loans and Advances to Banks							
High Grade	₱40,478,407	₱–	₱–	₱–	₱–	₱–	₱40,478,407

As of December 31, 2023 and 2022, the following table shows the credit quality of the Bank's investment securities (in thousands):

	2023						
	Stage 1		**Stage 2**				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
FVTPL - Government Debt Securities							
High Grade	**₱414,298**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱414,298**
	414,298	–	–	–	–	–	**414,298**
FVOCI - Government Debt Securities							
High Grade	**52,699,129**	–	–	–	–	–	**52,699,129**
	52,699,129	–	–	–	–	–	**52,699,129**
FVOCI - Private Debt Securities							
Standard Grade	**1,633,147**	–	–	–	–	–	**1,633,147**
	1,633,147	–	–	–	–	–	**1,633,147**
Investment Securities at Amortized Cost - Government Debt Securities							
High Grade	**27,886,190**	–	–	–	–	–	**27,886,190**
	27,886,190	–	–	–	–	–	**27,886,190**
Investment Securities at Amortized Cost - Private Debt Securities							
Standard Grade	**2,020,864**	–	–	–	–	–	**2,020,864**
	2,020,864	–	–	–	–	–	**2,020,864**
Total Investment Securities							
High Grade	**80,999,617**	**–**	**–**	**–**	**–**	**–**	**80,999,617**
Standard Grade	**3,654,011**	**–**	**–**	**–**	**–**	**–**	**3,654,011**
	₱84,653,628	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱84,653,628**

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	2022						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
FVTPL - Government Debt Securities							
High Grade	₱36	₱–	₱–	₱–	₱–	₱–	₱36
FVTPL - Derivative Asset							
High Grade	–	–	–	–	–	–	–
	36	–	–	–	–	–	36
FVOCI - Government Debt Securities							
High Grade	68,039,301	–	–	–	–	–	68,039,301
	68,039,301	–	–	–	–	–	68,039,301
FVOCI - Private Debt Securities							
Standard Grade	1,600,772	–	–	–	–	–	1,600,772
	1,600,772	–	–	–	–	–	1,600,772
Investment Securities at Amortized Cost - Government Debt Securities							
High Grade	27,932,285	–	–	–	–	–	27,932,285
	27,932,285	–	–	–	–	–	27,932,285
Investment Securities at Amortized Cost Private Debt Securities							
Standard Grade	2,508,573	–	–	–	–	–	2,508,573
	2,508,573	–	–	–	–	–	2,508,573
Total Investment Securities							
High Grade	95,971,622	–	–	–	–	–	95,971,622
Standard Grade	4,109,345	–	–	–	–	–	4,109,345
	₱100,080,967	₱–	₱–	₱–	₱–	₱–	₱100,080,967

All of the Bank's loan commitments and financial guarantees amounting to ₱41.1 million and ₱122.0 million as of December 31, 2023 and 2022, respectively, are classified as high grade under Stage 1.

ECL Methodology Overview
Two modelling approaches are employed to build a consistent framework for the development of all ECL models of the Bank. Both modeling approaches consider past events, current conditions and forecast of economic conditions in assessing impairment.

The complex model approach is used for portfolios with a significant number of historical defaults. This approach is applied to the consumer loan portfolios. These quantitative models are built by applying statistical, economic, financial or mathematical theories, techniques and assumptions to calculate provisions. Where historical data are insufficient to develop statistical models, such as for Business Loans, Account Receivables, Sales Contract Receivables, etc. the simplified ECL approach is employed. The Bank observes the historical PD and LGD of the portfolio and applies forward looking economic data on PD to calculate the ECL.

Classification of Individual/Collective Impairment
The Bank calculates provisions either in a collective or individual basis.

Collective impairment calculates risk provisions by grouping exposures into smaller homogeneous portfolios based on a combination of borrower and account characteristics. Accounts with similar risk attributes (i.e. facility, security, credit rating, months-on-books, utilization and collateral type, etc.) are pooled together for calculating provisions based on the expected credit loss models. All Stage 1 and 2 accounts of the Bank are categorized under collective impairment.

Individual impairment is applicable for all accounts under Stage 3 or accounts deemed as significant exposures and show objective evidence of impairment. The indicators may be default in payment, restructuring, litigation or probable foreclosure.

As of December 31, 2023 and 2022, an analysis by past due status of receivables from customers wherein the SICR is based only on the past due information is as follows:

	2023					
	Number of days past due					
	Up to 30 days	**31-60 days**	**61-90 days**	**91-180 days**	**180 days**	**Total**
Receivables from customers						
Consumption loans	**₱98,570**	**₱1,860,619**	**₱839,132**	**₱995,710**	**₱1,419,009**	**₱5,213,040**
Real estate loans	**669,901**	**890,094**	**321,886**	**237,291**	**573,539**	**2,692,711**
Commercial loans	**149,507**	**14,562**	**3,826**	**5,421**	**210,706**	**384,022**
Personal loans	**72,723**	**16,700**	**14,043**	**24,394**	**114,622**	**242,482**
Total	**₱990,701**	**₱2,781,975**	**₱1,178,887**	**₱1,262,816**	**₱2,317,876**	**₱8,534,255**

	2022					
	Number of days past due					
	Up to 30 days	31-60 days	61-90 days	91-180 days	180 days	Total
Receivables from customers						
Consumption loans	₱94,402	₱1,544,667	₱642,497	₱657,251	₱1,041,863	₱3,980,680
Real estate loans	755,775	1,103,013	408,889	257,910	609,698	3,135,285
Commercial loans	38,173	15,288	11,457	1,342	315,281	381,541
Personal loans	88,419	21,226	12,267	27,729	141,573	291,214
Total	₱976,769	₱2,684,194	₱1,075,110	₱944,232	₱2,108,415	₱7,788,720

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. We use BSP-approved Type 3 Derivative License for plain vanilla FX forwards to manage our FX risk against adverse exchange rate movements.

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 potential losses against approved VaR limit. In addition, actual daily profit and loss levels are monitored against loss triggers. If there is a breach in the VaR limit or loss triggers, Treasury Group is expected to close or reduce their position and bring it down within the limit. Breaches in the limit requires approval of ALCO, President, or ROC/Board, as appropriate.

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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):

	December 31, 2023		December 31, 2022	
	Peso	**USD**	**Peso**	**USD**
Year-end	**1**	–	1	–
Average	**0**	–	1	–
High	**2**	–	2	–
Low	**0**	–	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.

	2023		2022	
	Change in basis points	**Sensitivity of equity**	**Change in basis points**	**Sensitivity of equity**
Currency				
PHP	**+10**	**(₱10,854,916)**	+10	(₱5,101,207)
USD	**+10**	**–**	+10	–
Currency				
PHP	**-10**	**10,934,344**	-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.

	2023		2022	
	Change in basis points	**Sensitivity of NII**	Change in basis points	Sensitivity of NII
Currency				
PHP	**+10**	**(₱2,497,311)**	+10	₱9,228,360
USD	**+10**	**(9,197,978)**	+10	(10,587,508)
Currency				
PHP	**-10**	**2,497,311**	-10	(9,228,360)
USD	**-10**	**9,197,978**	-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.

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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):

	2023[1]	2022[1]
As of year-end	**₱1,212**	₱1,669
Average	**1,356**	857
High	**2,319**	1,669
Low	**671**	263

[1]Using METRISK Historical Simulation VaR

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

c. 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.

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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.

Financial assets
Analysis of equity and debt securities at FVTPL and financial assets at FVOCI into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

Financial liabilities
The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date and does not consider the behavioral pattern of the creditors. When the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

Analysis of Financial Assets and Liabilities by Remaining Maturities
The tables below show the maturity profile of the Bank's financial assets and liabilities based on contractual undiscounted repayment obligations (in millions):

	2023							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Assets								
Financial assets at FVTPL	₱–	₱47	₱405,093	₱–	₱–	₱405,140	₱–	₱405,140
Financial assets at FVOCI								
Government securities	–	49,400	1,489	178	67	51,134	1,565	52,699
Private securities	–	–	1,396	–	–	1,396	237	1,633
Quoted equity securities								–
Investment securities at amortized cost								–
Government bonds	–	–	700	–	291	991	26,885	27,876
Private securities	–	–	254	300		554	1,463	2,017
Loans and receivables								
Loans and advances to banks								
Due from BSP	3,598,634	6,149,461	–	–	–	9,748,095	–	9,748,095
Due from other banks	1,765,439	-	–	–	–	1,765,439	–	1,765,439
Interbank loans receivable and SPURA	–	6,990,723	–	–	–	6,990,723	–	6,990,723
Receivables from customers								
Consumption loans	277,936	1,070,650	2,271,328	3,730,696	8,830,172	16,180,782	103,026,290	119,207,072
Real estate loans	198,323	420,242	969,853	1,383,981	2,918,912	5,891,311	72,392,509	78,283,820
Commercial loans	534,115	362,967	761,881	487,061	734,674	2,880,698	5,559,843	8,440,541
Personal loans	269,183	110,453	250,613	319,205	865,495	1,814,949	951,193	2,766,142
Other receivables								
Accrued interest receivable	2,315,104	9,623	15,249	1,567	57,148	2,398,691	-	2,398,691
Accounts receivable	910,927	14,414	2,193	2,747	1,051	931,332	461,729	1,393,061
Sales contract receivable	4,267	-	45	2,065	67	6,444	507	6,951
Other assets								
Security deposits	–	1,128	3,231	5,389	15,992	25,740	173,144	198,884
RCOCI	14,420	–	–	–	–	14,420	–	14,420
	₱9,888,348	₱15,179,108	₱4,683,325	₱5,933,189	₱13,423,869	₱49,107,839	₱182,595,365	₱231,703,204
Financial Liabilities								
Deposit liabilities								
Demand	₱25,325,912	₱–	₱–	₱–	₱–	₱25,325,912	₱–	₱25,325,912
Savings	46,463,448	–	–	–	–	46,463,448	–	46,463,448
Time	259,365	75,891,842	17,558,390	2,258,835	2,214,166	98,182,598	17,143,281	115,325,879
LTNCD	-	-	5,111,759	-	-	5,111,759	-	5,111,759
	72,048,725	75,891,842	22,670,149	2,258,835	2,214,166	175,083,717	17,143,281	192,226,998
Treasurer's, cashier's and manager's checks	1,514,066	-	–	–	–	1,514,066	–	1,514,066
Bills payable	–	271,916	–	–	–	271,916	–	271,916
Accrued interest payable	463,686	–	52,020	–	–	515,706	–	515,706
Accrued other expenses payable	–	–	2,147,831	–	–	2,147,831	–	2,147,831
Other liabilities	–	–		–	–	–	–	–
Accounts payable	1,998,394	–	-	–	–	1,998,394	–	1,998,394
Lease liabilities	–	38,363	76,432	109,018	196,011	419,824	928,432	1,348,256
Other credits	169,938	–	–	–	–	169,938	–	169,938
Deposit for keys	741,645	–	–	–	–	741,645	–	741,645
	₱76,936,454	₱76,202,121	₱24,946,432	₱2,367,853	₱2,410,177	₱182,863,037	₱18,071,713	₱200,934,750

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	2022							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Assets								
Financial assets at FVOCI								
Government securities	₱–	₱68,060	₱–	₱65	₱60	₱68,185	₱1	₱68,186
Private securities	–	–	–	–	–	–	1,650	1,650
Quoted equity securities	–	–	–	–	–	–	21	21
Investment securities at amortized cost								
Government bonds	–	684	584	242	398	1,908	28,875	30,783
Private securities	–	–	15	23	11	49	2,490	2,539
Loans and receivables								
Loans and advances to banks								
Due from BSP	6,320	31,233	–	–	–	37,553	–	37,553
Due from other banks	2,925	–	–	–	–	2,925	–	2,925
Interbank loans receivable and SPURA	–	2,651	–	–	–	2,651	–	2,651
Receivables from customers								
Consumption loans	244	826	1,811	2,950	7,033	12,864	76,775	89,639
Real estate loans	205	440	955	1,378	2,916	5,894	72,121	78,015
Commercial loans	513	604	694	357	745	2,913	5,288	8,201
Personal loans	314	112	263	328	910	1,927	1,016	2,943
Other receivables								
Accrued interest receivable	549	1,776	209	77	0	2,611	–	2,611
Accounts receivable	956	20	6	1	4	987	465	1,452
Sales contract receivable	4	–	2	0	0	6	5	11
Other assets								
Security deposits	–	1	2	2	9	14	177	191
RCOCI	12	–	–	–	–	12	–	12
Shortages	–	–	–	–	–	–	–	–
	₱12,042	₱106,407	₱4,541	₱5,423	₱12,086	₱140,499	₱188,884	₱329,383
Financial Liabilities								
Deposit liabilities								
Demand	₱26,602	₱–	₱–	₱–	₱–	₱26,602	₱–	₱26,602
Savings	46,933	–	–	–	–	46,933	–	46,933
Time	81	80,981	33,091	2,979	2,778	119,910	15,249	135,159
LTNCD	–	–	–	–	–	–	5,078	5,078
	73,616	80,981	33,091	2,979	2,778	193,445	20,327	213,772
Treasurer's, cashier's and manager's checks	1,014	–	–	–	–	1,014	–	1,014
Bills payable	1,186	–	–	–	–	1,186	–	1,186
Bonds payable	–	–	–	–	4,648	4,648	–	4,648
Accrued interest payable	–	–	473	–	33	506	–	506
Accrued other expenses payable	–	1,525	266	–	209	2,000	–	2,000
Other liabilities								
Accounts payable	2,087	–	–	–	–	2,087	–	2,087
Lease liabilities	–	34	66	99	195	394	929	1,323
Other credits	169	–	–	–	–	169	–	169
Bills purchased - contra								
Deposit for keys	1	–	–	–	–	1	–	1
Payment order payable and overages	3	–	–	–	–	3	–	3
	₱78,076	₱82,540	₱33,896	₱3,078	₱7,863	₱205,453	₱21,256	₱226,709

6. 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. Corporate Banking - principally handles loans and other credit facilities for small and medium enterprises, corporate and institutional customers acquired in the Home Office;
c. Branch Banking - serves as the Bank's main customer touch point which offers consumer and corporate banking products; and
d. 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 years ended December 31, 2023, 2022 and 2021 follows (in thousands):

	2023				
	Consumer Banking	**Corporate Banking**	**Branch Banking**	**Treasury**	**Total**
Operating income					
Interest income	**₱3,818,782**	**₱593,849**	**₱7,918,866**	**₱5,292,768**	**₱17,624,265**
Service fees and commission	**586,757**	**12,506**	**1,193,480**	–	**1,792,743**
Other operating income	**953,163**	**7,814**	**607,681**	**22,922**	**1,591,580**
Total operating income	**5,358,702**	**614,169**	**9,720,027**	**5,315,690**	**21,008,588**
Non-cash expenses					
Provision for credit and impairment losses	**1,267,662**	**50,112**	**138,210**	**(4,894)**	**1,451,090**
Depreciation	**209,247**	**2,932**	**626,693**	**1,264**	**840,136**
Amortization of intangible assets	**37,485**	**944**	**67,087**	**697**	**106,213**
Total non-cash expenses	**1,514,394**	**53,988**	**831,990**	**(2,933)**	**2,397,439**
Interest expense	**-**	**-**	**2,514,801**	**3,283,288**	**5,798,089**
Service fees and commission expense	**21,465**	**458**	**43,661**	**-**	**65,584**
Subtotal	**21,465**	**458**	**2,558,462**	**3,283,288**	**5,863,673**
Compensation and fringe benefits	**981,002**	**59,622**	**2,736,065**	**35,026**	**3,811,715**
Taxes and licenses	**409,260**	**11,358**	**513,802**	**738,107**	**1,672,527**
Occupancy and equipment-related costs	**89,823**	**571**	**247,741**	**330**	**338,465**
Security, messengerial and janitorial services	**134,936**	**2,006**	**293,958**	**339**	**431,239**
Miscellaneous	**476,514**	**9,635**	**1,065,178**	**139,519**	**1,690,846**
Subtotal	**2,091,535**	**83,192**	**4,856,744**	**913,321**	**7,944,792**
Income before share in net income of a joint venture and income tax	**1,731,308**	**476,531**	**1,472,831**	**1,122,014**	**₱4,802,684**
Share in net income of a joint venture					**86,341**
Income before income tax					**4,889,025**
Provision for income tax					**357,963**
Net income					**4,531,062**
Segment assets	**₱96,310,679**	**₱2,287,007**	**₱46,653,000**	**₱91,054,823**	**236,305,509**
Investment in a joint venture					**870,179**
Deferred tax assets					**1,257,608**
Total assets					**₱238,433,296**
Segment liabilities	**₱1,401,753**	**₱94,864**	**₱138,894,328**	**₱57,888,193**	**₱198,279,138**

	2022				
	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 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

NOTES TO FINANCIAL STATEMENTS

	2021				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱4,945,286	₱228,312	₱6,918,669	₱2,272,502	₱14,364,769
Service fees and commission	534,492	22,250	1,024,385	–	1,581,127
Other operating income	666,560	10,004	739,371	6,276	1,422,211
Total operating income	6,146,338	260,566	8,682,425	2,278,778	17,368,107
Non-cash expenses					
Provision for credit and impairment losses	2,717,849	6,068	343,425	3,336	3,070,678
Depreciation	242,670	2,653	589,789	1,216	836,328
Amortization of intangible assets	39,934	1,381	71,182	1,152	113,649
Total non-cash expenses	3,000,453	10,102	1,004,396	5,704	4,020,655
Interest expense	–	–	1,395,499	764,509	2,160,008
Service fees and commission expense	16,164	673	30,980	–	47,817
Subtotal	16,164	673	1,426,479	764,509	2,207,825
Compensation and fringe benefits	868,325	61,280	2,577,514	38,216	3,545,335
Taxes and licenses	327,026	16,041	556,772	686,295	1,586,134
Occupancy and equipment-related costs	115,829	1,145	234,903	711	352,588
Security, messengerial and janitorial services	92,338	1,249	255,334	612	349,533
Miscellaneous	672,101	18,332	1,217,257	174,513	2,082,203
Subtotal	2,075,619	98,047	4,841,780	900,347	7,915,793
Income before share in net income of a joint venture and income tax	1,054,102	151,744	1,409,770	608,218	3,223,834
Share in net income of a joint venture					41,915
Income before income tax					3,265,749
Benefit from income tax					(1,726,255)
Net income					₱1,539,494
Segment assets	₱80,895,520	₱3,765,463	₱42,419,696	₱133,385,718	260,466,397
Investment in a joint venture					762,926
Deferred tax assets					576,787
Total assets					₱261,806,110
Segment liabilities	₱811,147	₱94,530	₱141,071,696	₱84,934,660	₱226,912,033

7. Due from Bangko Sentral ng Pilipinas, Interbank Loans Receivable and Securities Purchased Under Resale Agreements

Due from Bangko Sentral ng Pilipinas
This account consists of the following:

	2023	2022
Demand deposit (Note 16)	**₱3,598,633,911**	₱6,320,243,574
Term deposit facility	**3,000,000,000**	30,023,000,000
Overnight deposit facility	**3,147,000,000**	1,210,000,000
	₱9,745,633,911	₱37,553,243,574

Due from BSP- Overnight deposit facility (ODF) bears annual interest rates ranging from 5.00% to 6.00% in 2023 and from 1.50% to 5.00% in 2022. On the other hand, due from BSP- Term Deposit (TD) bears annual interest rates ranging from 6.28% to 6.71% in 2023 and from 1.65% to 6.49% in 2022.

Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA)
This account consists of the following:

	2023	2022
Interbank loans receivable	**₱–**	₱18,405,615
SPURA	**6,989,635,680**	2,651,203,416
	₱6,989,635,680	₱2,669,609,031

SPURA are lending to counterparties collateralized by government securities ranging from one to six days.

As of December 31, 2023 and 2022, the fair values of government securities held as collateral amounted to ₱7.0 billion and ₱2.7 billion, respectively. The Bank is not permitted to sell or repledge the related collateral in the absence of default by the counterparty.

Interbank call loans (IBCL) represent short-term lending with counterparty banks and other financial institutions. These are highly liquid instruments which mature within one to five days.

Interest income on due from BSP, interbank loans receivable and SPURA are as follows:

	2023	2022	2021
Due from BSP	**₱1,397,792,663**	₱1,254,216,130	₱648,063,197
IBCL and SPURA			
IBCL (Note 29)	**24,751,029**	7,862,763	–
SPURA	**394,630,077**	187,915,814	70,592,184
	419,381,106	195,778,577	70,592,184
	₱1,817,173,769	₱1,449,994,707	₱718,655,381

SPURA of the Bank bears annual interest rates ranging from 5.50% to 6.40% in 2023, 2.00% to 5.50% in 2022 and 2.00% in 2021. Foreign currency-denominated IBCLs bear annual interest ranging from 4.00% to 4.50% in 2023 and from 0.32% to 3.25% in 2022, while peso-denominated IBCL of the Bank bear annual interest rate ranging from 6.19% to 6.41% in 2023 and from 1.87% to 4.25% in 2022.

8. Investment Securities

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

	2023	2022
Government debt securities	**₱414,298,313**	₱35,875

The unrealized portion of the trading securities gains/(losses) on FVTPL investments amounted to ₱1.76 million in 2023 and (₱0.01 million) in 2022.

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

	2023	2022
Debt securities		
Government	**₱52,699,128,847**	₱68,039,300,677
Private	**1,633,147,238**	1,600,771,597
Equity securities		
Quoted	**27,417,546**	20,643,608
	₱54,359,693,631	₱69,660,715,882

As of December 31, 2023 and 2022, the Bank deposited financial assets at FVOCI with total carrying value of ₱123.9 million and ₱180.5 million, respectively, in the form of government bonds with BSP, in compliance with trust regulations (Note 30).

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2023, and 2022, the ECL on financial assets at FVOCI (included in 'Fair value reserves on financial assets at FVOCI') amounted to ₱0.7 million and ₱1.0 million (Note 15), respectively. Movements in the fair value reserves on financial assets at FVOCI follow:

	2023	2022
Balance at beginning of year	**(₱48,782,635)**	₱2,409,890
Loss (gain) from sale of financial assets at FVOCI realized in profit or loss	**677,047**	(2,499,021)
Changes in allowance for ECL (Note 15)	**(207,485)**	(10,324,217)
Fair value gain (loss) recognized in OCI	**119,107,530**	(38,369,287)
Balance at end of year	**₱70,794,457**	(₱48,782,635)

Investment Securities at Amortized Cost
Investment securities at amortized cost consist of the following:

	2023	2022
Debt securities		
Government	**₱27,886,190,462**	₱27,932,285,174
Private	**2,020,863,838**	2,508,572,566
	29,907,054,300	30,440,857,740
Less allowance for credit losses (Note 15)	**13,886,257**	18,573,036
	₱29,893,168,043	₱30,422,284,704

In 2023 and 2022, investment securities at amortized cost include Bureau of Treasury bonds pledged by the Bank to MBTC to secure its payroll account, with total carrying value of ₱60.0 million and ₱60.1 million, respectively.

In 2021, the Bank sold investment securities classified as investment securities at amortized cost with total carrying amount of ₱378.7 million, resulting in gain on disposal of investment securities at amortized cost amounting to ₱11.7 million. The disposal in 2021 was assessed as not inconsistent with the Bank's HTC business model as the disposal was considered infrequent and insignificant in value. Further, the Bank assessed that the disposals did not reflect a change in the Bank's objectives for the HTC business model. Accordingly, the remaining investment securities in the affected HTC portfolio continue to be measured at amortized cost.

Interest income on investment securities consists of:

	2023	**2022**	2021
Interest income recognized using EIR			
Financial assets at FVOCI	**₱2,948,166,683**	₱1,590,417,662	₱940,474,154
Investment securities at amortized cost	**1,359,495,255**	983,839,251	545,545,008
	4,307,661,938	2,574,256,913	1,486,019,162
Interest income recognized using nominal interest rates			
FVTPL investments	**3,495,728**	2,152	11,272,985
	₱4,311,157,666	₱2,574,259,065	₱1,497,292,147

EIR on financial assets at FVOCI investments as of December 31, 2023, 2022, and 2021, range from 6.34% to 6.74%, from 1.97% to 6.04%, and from 0.97% to 9.34%, respectively.

NOTES TO FINANCIAL STATEMENTS

On the other hand, EIR on peso-denominated investment securities at amortized cost range from 4.99% to 5.55% in 2023, from 3.86% to 5.02% in 2022 and from 3.21% to 5.61% in 2021, while EIR on foreign currency-denominated investment securities at amortized cost range from 3.28% to 3.65%, from 3.31% to 3.66% in 2022 and 3.32% to 3.67% in 2021.

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

	2023	2022	2021
Financial assets at FVOCI	**(₱677,047)**	₱2,499,021	₱4,000,002
FVTPL investments (Note 29)	**5,970,945**	(43,835)	(1,266,526)
	₱5,293,898	₱2,455,186	₱2,733,476

9. **Loans and Receivables**

This account consists of:

	2023	2022
Receivables from customers		
Consumption loans	**₱75,082,900,240**	₱60,698,139,340
Real estate loans	**41,266,767,900**	42,188,099,978
Commercial loans	**6,749,239,198**	6,479,111,462
Personal loans (Note 29)	**2,103,099,117**	2,223,139,881
	125,202,006,455	111,588,490,661
Less unearned discounts and capitalized interest	**115,002,708**	185,272,959
	125,087,003,747	111,403,217,702
Other receivables		
Accrued interest receivable	**2,398,689,550**	2,610,954,731
Accounts receivable (Note 29)	**1,393,060,263**	1,452,343,060
Bills purchased (Note 19)	**42,243,033**	–
Sales contract receivables	**6,951,309**	10,929,360
	128,927,947,902	115,477,444,853
Less allowance for credit losses (Note 15)	**6,163,535,676**	5,780,140,301
	₱122,764,412,226	₱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 December 31, 2023, 2022 and 2021, 35.65%, 40.09%, and 42.38%, respectively, of the total receivables from customers are subject to periodic interest repricing with average EIR of 8.50%, 8.14%, and 7.74% in 2023, 2022 and 2021, respectively. Remaining receivables earn average annual fixed interest rates of 16.43%, 15.95%, and 15.91%, in 2023, 2022 and 2021, respectively.

Interest income on loans and receivables consists of:

	2023	2022	2021
Receivables from customers			
Consumption loans	**₱6,871,709,159**	₱5,666,303,484	₱6,268,592,270
Real estate loans	**3,504,027,484**	3,462,009,203	3,882,390,733
Personal loans (Note 29)	**627,081,379**	585,515,967	1,329,347,250
Commercial loans	**476,440,498**	445,022,995	665,758,611
Other receivables			
Sales contract receivables	**200,864**	666,388	2,685,306
	₱11,479,459,384	₱10,159,518,037	₱12,148,774,170

NOTES TO FINANCIAL STATEMENTS

Interest income from restructured loans amounted to ₱10.7 million, ₱5.9 million, and ₱5.0 million in 2023, 2022, and 2021, respectively.

On March 25, 2020, Republic Act (RA) No. 11469, otherwise known as the Bayanihan to Heal as One Act (“Bayanihan 1 Act”) was enacted. Bayanihan 1 Act provides that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest and lease amortization falling due within the ECQ Period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2020, RA No. 11494, otherwise known as the Bayanihan to Recover as One Act (“Bayanihan 2 Act”), was enacted. Under Bayanihan 2 Act, a one-time sixty (60)-day grace period is granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity of the said loans. Furthermore, a minimum 30-day grace period shall also be granted by covered institutions to all payments due within the period of community quarantine on rent and utility-related expenditures without incurring penalties, interest, and other charges.

Accretion of modified loans amounted to ₱70.1 million, ₱107.0 million and ₱134.6 million in 2023, 2022 and 2021, respectively (Note 23).

10. Investment in a Joint Venture

The Bank’s investment in a joint venture represents its 30.00% interest in Sumisho Motor Finance Corporation (SMFC) as of December 31, 2023 and 2022.

SMFC was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 26, 2009. It started commercial operations in March 2010. Its principal office is located at 12th Floor, PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City.

SMFC is engaged in the business of lending or leasing to retail customers for their purchase of motorcycles.

Management has assessed that the Bank continues to have joint control over SMFC together with GT Capital, Sumitomo Japan, and Sumitomo Corporation of the Philippines (Sumitomo Group), as all investors are bound by all terms and conditions of the original Joint Venture Agreement between the Bank and Sumitomo Group, where unanimous consent is required from all the parties for SMFC’s relevant activities.

The investment is measured using the equity method. As of December 31, 2023, and 2022, the Bank’s investment in a joint venture amounted to ₱870.2 million and ₱816.3 million, respectively.

Movement in this account follows (in thousands):

	2023	2022
Balance at beginning of year	**₱816,285**	₱762,926
Share in net income (Note 29)	**86,341**	83,418
Share in remeasurement gains on retirement plan (Note 29)	**3,301**	–
Share in hedge reserves (Note 29)	**21,852**	–
Dividends received	**(57,600)**	(30,059)
Balance at end of year	**₱870,179**	₱816,285

NOTES TO FINANCIAL STATEMENTS

The following table illustrates the summarized financial information of SMFC (in thousands):

	2023	2022
Current assets	**₱7,251,886**	₱6,422,841
Non-current assets	**452,478**	373,076
Current liabilities	**(3,279,135)**	(3,968,926)
Non-current liabilities	**(1,524,632)**	(106,041)
Net assets	**₱2,900,597**	₱2,720,950

	2023	2022
Cash and cash equivalents	**₱687,758**	₱373,518
Current financial liabilities	**(3,299,346)**	(3,644,859)
Non-current financial liabilities	**(1,417,664)**	(28,599)

	2023	2022	2021
Revenues	**₱1,803,734**	₱1,548,564	₱1,962,096
Less: Costs and expenses	**1,539,695**	1,159,711	1,588,374
	264,039	388,853	373,722
Less: Provision for (benefit from) income tax	**(23,764)**	110,792	234,006
Net income	**287,803**	278,061	139,716
Add: Other comprehensive income	**(32,357)**	33,212	90,384
Total comprehensive income	**₱255,446**	₱311,273	₱230,100

	2023	2022	2021
Interest income	**₱1,715,112**	₱1,459,009	₱1,646,205
Interest expense	**240,397**	164,828	217,354
Depreciation and amortization	**96,437**	91,584	67,542
Income tax expense or income	**62,536**	110,792	234,006

Cost of the investment as of December 31, 2023 and 2022 amounted to ₱600.0 million.

On June 23, 2023, SMFC declared dividends of ₱9.60 per share amounting to a total of ₱192.0 million. The same was paid to shareholders on July 19, 2023.

On June 24, 2022, SMFC declared dividends of ₱5.01 per share amounting to a total of ₱100.2 million. The same was paid to shareholders on July 20, 2022.

SMFC is a private company and there is no quoted market price available for its shares. The net assets of SMFC consist mainly of financial assets and financial liabilities.

The Bank has no share in any contingent liabilities or capital commitments of SMFC as of December 31, 2023 and 2022. There are also no agreements entered into by SMFC that may restrict dividends and other capital contributions to be paid, loans and advances to be made or repaid to or from the Bank as of the said dates.

NOTES TO FINANCIAL STATEMENTS

11. Property and Equipment

The composition of and movements in this account follow:

	2023					
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Right-of-use Assets: Building**	**Total**
Cost						
Balance at beginning of the period	**₱976,443,676**	**₱1,155,304,612**	**₱3,135,342,532**	**₱1,101,893,510**	**₱2,001,043,368**	**₱8,370,027,698**
Acquisitions/Additions	**–**	**9,541,646**	**349,393,788**	**29,491,286**	**312,921,930**	**701,348,650**
Disposals/Retirement	**–**	**–**	**(69,397,401)**	**–**	**(350,373,660)**	**(419,771,061)**
Balance at end of the period	**976,443,676**	**1,164,846,258**	**3,415,338,919**	**1,131,384,796**	**1,963,591,638**	**8,651,605,287**
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	**–**	**35,811,640**	**156,665,664**	**28,339,407**	**417,200,588**	**638,017,299**
Disposals/Retirement	**–**	**–**	**(37,264,214)**	**–**	**(334,409,746)**	**(371,673,960)**
Balance at end of the period	**–**	**634,324,894**	**2,835,102,506**	**1,070,267,248**	**969,953,262**	**5,509,647,910**
Net Book Value	**₱976,443,676**	**₱530,521,364**	**₱580,236,413**	**₱61,117,548**	**₱993,638,376**	**₱3,141,957,377**

	2022					
	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	28,884,427	399,626,555	580,537,882
Disposals/Retirement	–	–	(86,219,566)	(288,016)	(270,510,081)	(357,017,663)
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 ₱3.9 million in 2023, ₱12.1 million in 2022 and ₱2.0 million in 2021.

The details of depreciation under the statements of income follow:

	2023	2022	2021
Property and equipment	**₱638,017,299**	₱580,537,882	₱573,391,951
Chattel mortgage properties (Note 14)	**109,360,006**	83,084,760	180,862,587
Investment properties (Note 12)	**92,758,455**	92,330,079	82,073,041
	₱840,135,760	₱755,952,721	₱836,327,579

As of December 31, 2023 and 2022, property and equipment of the Bank with gross carrying amounts of ₱2.4 billion and ₱2.5 billion, respectively, are fully depreciated but are still being used.

12. **Investment Properties**

The composition of and movements in this account follow:

	2023		
	Land	**Building Improvements**	**Total**
Cost			
Balance at beginning of year	**₱1,372,656,512**	**₱3,345,050,833**	**₱4,717,707,345**
Additions (Note 32)	**196,132,372**	**464,387,687**	**660,520,059**
Disposals	**(164,314,113)**	**(587,890,609)**	**(752,204,722)**
Balance at end of year	**1,404,474,771**	**3,221,547,911**	**4,626,022,682**
Accumulated Depreciation			
Balance at beginning of year	**–**	**459,729,368**	**459,729,368**
Depreciation (Note 11)	**–**	**92,758,455**	**92,758,455**
Disposals	**–**	**(66,092,310)**	**(66,092,310)**
Balance at end of year	**–**	**486,395,513**	**486,395,513**
Allowance for Impairment Losses			
Balance at beginning of year	**57,557,773**	**168,949,139**	**226,506,912**
Provisions for the year (Note 15)	**415,646**	**11,769,290**	**12,184,936**
Disposals	**(1,846,285)**	**(32,168,578)**	**(34,014,863)**
Balance at end of year	**56,127,134**	**148,549,851**	**204,676,985**
Net Book Value	**₱1,348,347,637**	**₱2,586,602,547**	**₱3,934,950,184**

	2022		
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	₱1,320,449,533	₱2,794,942,497	₱4,115,392,030
Additions (Note 32)	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 (Note 11)	–	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 (Note 15)	(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:

	2023	2022
Real estate properties acquired in settlement of loans and receivables	**₱3,859,953,928**	₱3,952,646,383
Bank premises leased to third parties and held for capital appreciation	**74,996,256**	78,824,682
	₱3,934,950,184	₱4,031,471,065

As of December 31, 2023 and 2022, the aggregate fair value of investment properties amounted to ₱6.6 billion and ₱6.5 billion, respectively. Fair value of the properties was determined using sales comparison approach. Fair values are based on valuations performed by accredited external and in-house appraisers.

NOTES TO FINANCIAL STATEMENTS

Gain on foreclosure of investment properties amounted to ₱233.5 million, ₱597.4 million, and ₱256.5 million in 2023, 2022 and 2021, respectively. Gain on sale of investment properties amounted to ₱128.4 million, ₱204.3 million, and ₱314.8 million in 2023, 2022 and 2021, respectively. Rental income on investment properties included in 'Miscellaneous income' amounted to ₱47.2 million, ₱44.1 million, and ₱42.4 million in 2023, 2022 and 2021, respectively (Notes 23 and 25).

Operating expenses incurred in maintaining investment properties (included under miscellaneous expense - 'Repairs and maintenance') amounted to ₱10.2 million, ₱11.1 million, and ₱13.0 million in 2023, 2022 and 2021, respectively (Note 26).

13. Intangible Assets and Goodwill

This account consists of:

	2023	2022
Goodwill	**₱53,558,338**	₱53,558,338
Intangible assets		
Software costs	**207,515,121**	243,208,824
Branch licenses	**37,123,737**	37,123,737
	244,638,858	280,332,561
	₱298,197,196	₱333,890,899

Movements in intangible assets follow:

	2023		
	Software Costs	**Branch Licenses**	**Total**
Balance at beginning of year	**₱243,208,824**	**₱37,123,737**	**₱280,332,561**
Additions	**70,519,156**	**–**	**70,519,156**
Amortization	**(106,212,859)**	**–**	**(106,212,859)**
Balance at end of year	**₱207,515,121**	**₱37,123,737**	**₱244,638,858**

	2022		
	Software Costs	Branch Licenses	Total
Balance at beginning of year	₱270,511,009	₱37,123,737	₱307,634,746
Additions	75,548,530	–	75,548,530
Amortization	(102,850,715)	–	(102,850,715)
Balance at end of year	₱243,208,824	₱37,123,737	₱280,332,561

14. Other Assets

This account consists of:

	2023	2022
Financial assets		
Security deposits (Note 29)	**₱198,883,979**	₱190,888,081
Liquidity requirement for electronic money products	**187,273,039**	–
RCOCI	**14,419,807**	12,023,475
Others*	**436,826**	438,414
	401,013,651	203,349,970
Non-financial assets		
Chattel mortgage properties - net	**667,892,031**	335,317,543
Prepayments (Note 29)	**164,561,700**	129,455,531
Creditable withholding tax	**45,044,403**	50,161,181
Stationeries and supplies on hand	**44,329,293**	37,852,452
Documentary stamps on hand	**22,890,982**	28,565,091
Net retirement assets (Note 24)	**–**	203,410,383
Others**	**46,556**	6,665
	944,764,965	784,768,846
	₱1,345,778,616	₱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.

Liquidity requirement for electronic money products represents the amount set up to be held in trust for the specific purpose of liquidation of balances of electronic money (e-money) products of the Bank in compliance with BSP Circular No. 1166, *Amendments to the Regulations on Electronic Money (e-money) and the Operations of Electronic Money Issuers (EMI) in the Philippines* which was released by BSP on February 7, 2023. The BSP requires Bangko Sentral-Supervised Financial Institutions (BSFIs) to have sufficient liquid assets to always meet e-money redemptions by its customers. Such amount held in the trust account shall not fall below the required minimum balance of at least 50% of the outstanding e-money balances.

Movements in chattel mortgage properties - net follow:

	2023	2022
Cost		
Balance at beginning of year	**₱417,400,112**	₱494,437,996
Additions (Note 32)	**2,320,586,633**	1,978,930,122
Disposals	**(2,001,189,653)**	(2,055,968,006)
Balance at the end of year	**736,797,092**	417,400,112
Accumulated Depreciation		
Balance at beginning of year	**82,062,955**	85,868,482
Depreciation (Note 11)	**109,360,006**	83,084,760
Disposals	**(122,660,444)**	(86,890,287)
Balance at the end of year	**68,762,517**	82,062,955

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	2023	2022
Allowance for Impairment Losses		
Balance at beginning of year	**₱19,614**	₱49,740
Provisions (Note 15)	**674,171**	376,044
Disposals	**(551,241)**	(406,170)
Balance at end of year	**142,544**	19,614
Net Book Value	**₱667,892,031**	₱335,317,543

Gain on foreclosure of chattel mortgage properties amounted to ₱491.9 million, ₱595.4 million and ₱479.4 million in 2023, 2022 and 2021, respectively.

Gain (loss) on sale of chattel mortgage properties amounted to ₱128.1 million, ₱104.8 million and (₱337.2 million) in 2023, 2022 and 2021, respectively.

15. Allowance for Credit and Impairment Losses

An analysis of changes in the ECL allowances for loans and advances to banks as of December 31, 2023 and 2022 follows (in thousands):

	2023						
	Stage 1		**Stage 2**				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Due from BSP							
Balance as of January 1, 2023	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	–	–	–	–	–	–	–
Balance at December 31, 2023	–	–	–	–	–	–	–
Due from other banks							
Balance at January 1, 2023	**14,671**	–	–	–	–	–	**14,671**
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	**(13,462)**	–	–	–	–	–	**(13,462)**
Balance at December 31, 2023	**1,209**	–	–	–	–	–	**1,209**
Total loans and advances to banks							
Balance at January 1, 2023	**14,671**	–	–	–	–	–	**14,671**
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	**(13,462)**	–	–	–	–	–	**(13,462)**
Balance at December 31, 2023	**₱1,209**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,209**

	2022						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Due from BSP							
Balance as of January 1, 2022	₱1,174	₱–	₱–	₱–	₱–	₱–	₱1,174
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	(1,174)	–	–	–	–	–	(1,174)
Balance at December 31, 2022	–	–	–	–	–	–	–
Due from other banks							
Balance at January 1, 2022	1,099	–	–	–	–	–	1,099
New assets originated or purchased	13,572	–	–	–	–	–	13,572
Assets derecognized or repaid	–	–	–	–	–	–	–
Balance at December 31, 2022	14,671	–	–	–	–	–	14,671
Total loans and advances to banks							
Balance at January 1, 2022	2,273	–	–	–	–	–	2,273
New assets originated or purchased	13,572	–	–	–	–	–	13,572
Assets derecognized or repaid	(1,174)	–	–	–	–	–	(1,174)
Balance at December 31, 2022	₱14,671	₱–	₱–	₱–	₱–	₱–	₱14,671

An analysis of changes in the ECL allowances for investment securities as of December 31, 2023 and 2022 follows (in thousands):

	2023						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Financial assets at FVOCI							
Balance at January 1, 2023	**₱954**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱954**
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	**(208)**	–	–	–	–	–	**(208)**
Balance at December 31, 2023	**746**	–	–	–	–	–	**746**
Investment at amortized cost							
Balance at January 1, 2023	**18,573**	–	–	–	–	–	**18,573**
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	**(4,687)**	–	–	–	–	–	**(4,687)**
Balance at December 31, 2023	**13,886**	–	–	–	–	–	**13,886**
Total investment securities							
Balance at January 1, 2023	**19,527**	–	–	–	–	–	**19,527**
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	**(4,895)**	–	–	–	–	–	**(4,895)**
Balance at December 31, 2023	**₱14,632**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱14,632**

	2022						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Financial assets at FVOCI							
Balance at January 1, 2022	₱11,278	₱–	₱–	₱–	₱–	₱–	₱11,278
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	(10,324)	–	–	–	–	–	(10,324)
Balance at December 31, 2022	954	–	–	–	–	–	954
Investment at amortized cost							
Balance at January 1, 2022	25,598	–	–	–	–	–	25,598
New assets originated or purchased	14,322	–	–	–	–	–	14,322
Assets derecognized or repaid	(21,347)	–	–	–	–	–	(21,347)
Balance at December 31, 2022	18,573	–	–	–	–	–	18,573
Total investment securities							
Balance at January 1, 2022	36,876	–	–	–	–	–	36,876
New assets originated or purchased	14,322	–	–	–	–	–	14,322
Assets derecognized or repaid	(31,671)	–	–	–	–	–	(31,671)
Balance at December 31, 2022	₱19,527	₱–	₱–	₱–	₱–	₱–	₱19,527

An analysis of changes in the ECL allowances for receivables from customers as of December 31, 2023 and 2022 follows (in thousands):

	2023						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Consumption Loans							
Balance at January 1, 2023	**₱–**	**₱1,706,746**	**₱–**	**₱569,605**	**₱938,875**	**₱–**	**₱3,215,226**
New assets originated or purchased	–	**1,514,645**	–	**116,684**	**185,796**	–	**1,817,125**
Assets derecognized or repaid	–	**(132,064)**	–	**(182,992)**	**(348,783)**	–	**(663,839)**
Amounts written off	–	–	–	–	**(145,656)**	–	**(145,656)**
Transfers to Stage 1	–	**104,699**	–	**(87,647)**	**(17,052)**	–	–
Transfers to Stage 2	–	**(165,555)**	–	**196,066**	**(30,511)**	–	–
Transfers to Stage 3	–	**(46,230)**	–	**(79,764)**	**125,994**	–	–
Impact on change in assumptions	–	**(964,343)**	–	**77,927**	**581,029**	–	**(305,387)**
Balance at December 31, 2023	–	**2,017,898**	–	**609,879**	**1,289,692**	–	**3,917,469**
Real Estate Loans							
Balance at January 1, 2023	–	**246,988**	–	**547,520**	**311,961**	–	**1,106,469**
New assets originated or purchased	–	**42,543**	–	**4,412**	**4,610**	–	**51,565**
Assets derecognized or repaid	–	**(10,694)**	–	**(45,306)**	**(42,410)**	–	**(98,410)**
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	**67,007**	–	**(63,962)**	**(3,045)**	–	–
Transfers to Stage 2	–	**(77,394)**	–	**114,111**	**(36,717)**	–	–
Transfers to Stage 3	–	**(1,822)**	–	**(19,200)**	**21,022**	–	–
Impact on change in assumptions	–	**(72,318)**	–	**35,523**	**(59,900)**	–	**(96,695)**
Balance at December 31, 2023	–	**194,310**	–	**573,098**	**195,521**	–	**962,929**
Commercial Loans							
Balance at January 1, 2023	–	**55,871**	–	**35,208**	**176,753**	–	**267,832**
New assets originated or purchased	–	**6,824**	–	**38**	**5,317**	–	**12,179**
Assets derecognized or repaid	–	**(28,497)**	–	**(18,003)**	**(15,764)**	–	**(62,264)**
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	**9,333**	–	**(9,303)**	**(30)**	–	–
Transfers to Stage 2	–	**(774)**	–	**854**	**(80)**	–	–
Transfers to Stage 3	–	**(75)**	–	**(331)**	**406**	–	–

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	2023						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Impact on change in assumptions	₱–	(₱14,268)	₱–	₱6,460	₱18,237	₱–	₱10,429
Balance at December 31, 2023	–	28,414	–	14,923	184,839	–	228,176
Personal Loans							
Balance at January 1, 2023	–	107,081	–	256,563	214,182	–	577,826
New assets originated or purchased	–	38,158	–	62,300	12,539	–	112,997
Assets derecognized or repaid	–	(29,839)	–	-37,020	(1,025)	–	(67,884)
Amounts written off	–	–	–	–	(112,283)	–	(112,283)
Transfers to Stage 1	–	41,548	–	(41,461)	(87)	–	–
Transfers to Stage 2	–	(12,285)	–	12,527	(242)	–	–
Transfers to Stage 3	–	(2,900)	–	-20,676	23,576	–	–
Impact on change in assumptions	–	(71,053)	–	-14,536	48,093	–	(37,496)
Balance at December 31, 2023	–	70,710	–	217,697	184,753	–	473,160
Total Receivables from Customers							
Balance at January 1, 2023	–	2,116,686	–	1,408,896	1,641,771	–	5,167,353
New assets originated or purchased	–	1,602,170	–	183,434	208,262	–	1,993,866
Assets derecognized or repaid	–	(201,094)	–	(283,321)	(407,983)	–	(892,398)
Amounts written off	–	–	–	–	(257,939)	–	(257,939)
Transfers to Stage 1	–	222,587	–	(202,373)	(20,214)	–	–
Transfers to Stage 2	–	(256,008)	–	323,558	(67,550)	–	–
Transfers to Stage 3	–	(51,027)	–	(119,971)	170,998	–	–
Impact on change in assumptions	–	(1,121,982)	–	105,374	587,459	–	(429,149)
Balance at December 31, 2023	₱–	₱2,311,332	₱–	₱1,415,597	₱1,854,804	₱–	₱5,581,733

	2022						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Consumption Loans							
Balance at January 1, 2022	₱–	₱1,141,409	₱–	₱1,154,661	₱1,675,006	₱–	₱3,971,076
New assets originated or purchased	–	1,241,271	–	53,407	54,053	–	1,348,731
Assets derecognized or repaid	–	(132,694)	–	(294,409)	(486,387)	–	(913,490)
Amounts written off	–	–	–	–	(616,950)	–	(616,950)
Transfers to Stage 1	–	341,274	–	(279,641)	(61,633)	–	–
Transfers to Stage 2	–	(123,772)	–	215,989	(92,217)	–	–
Transfers to Stage 3	–	(18,785)	–	(122,702)	141,487	–	–
Impact on change in assumptions	–	(741,957)	–	(157,700)	325,516	–	(574,141)
Balance at December 31, 2022	–	1,706,746	–	569,605	938,875	–	3,215,226
Real Estate Loans							
Balance at January 1, 2022	–	75,080	–	291,816	276,789	–	643,685
New assets originated or purchased	–	57,708	–	4,625	3,208	–	65,541
Assets derecognized or repaid	–	(5,199)	–	(28,481)	(101,738)	–	(135,418)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	54,264	–	(47,664)	(6,600)	–	–
Transfers to Stage 2	–	(35,379)	–	108,164	(72,785)	–	–
Transfers to Stage 3	–	(754)	–	(29,158)	29,912	–	–
Impact on change in assumptions	–	101,268	–	248,218	183,175	–	532,661
Balance at December 31, 2022	–	246,988	–	547,520	311,961	–	1,106,469
Commercial Loans							
Balance at January 1, 2022	–	222,225	–	23,966	257,972	–	504,163
New assets originated or purchased	–	25,131	–	995	150	–	26,276
Assets derecognized or repaid	–	(59,800)	–	(2,204)	(61,598)	–	(123,602)
Amounts written off	–	–	–	–	–	–	-
Transfers to Stage 1	–	9,116	–	(6,044)	(3,072)	–	–
Transfers to Stage 2	–	(1,141)	–	14,409	(13,268)	–	–
Transfers to Stage 3	–	(41)	–	(1,625)	1,666	–	–
Impact on change in assumptions	–	(139,619)	–	5,711	(5,097)	–	(139,005)
Balance at December 31, 2022	–	55,871	–	35,208	176,753	–	267,832
Personal Loans							
Balance at January 1, 2022	–	15,644	–	408,105	683,244	–	1,106,993
New assets originated or purchased	–	58,712	–	60,721	9,111	–	128,544
Assets derecognized or repaid	–	(3,778)	–	(80,077)	(51,181)	–	(135,036)
Amounts written off	–	–	–	–	(450,694)	–	(450,694)
Transfers to Stage 1	–	98,205	–	(97,289)	(916)	–	–
Transfers to Stage 2	–	(4,155)	–	8,348	(4,193)	–	–
Transfers to Stage 3	–	(103)	–	(40,300)	40,403	–	–
Impact on change in assumptions	–	(57,444)	–	(2,945)	(11,592)	–	(71,981)
Balance at December 31, 2022	–	107,081	–	256,563	214,182	–	577,826
Total Receivables from Customers							
Balance at January 1, 2022	–	1,454,358	–	1,878,548	2,893,011	–	6,225,917
New assets originated or purchased	–	1,382,822	–	119,748	66,522	–	1,569,092
Assets derecognized or repaid	–	(201,471)	–	(405,171)	(700,904)	–	(1,307,546)
Amounts written off	–	–	–	–	(1,067,644)	–	(1,067,644)
Transfers to Stage 1	–	502,859	–	(430,638)	(72,221)	–	–
Transfers to Stage 2	–	(164,447)	–	346,910	(182,463)	–	–
Transfers to Stage 3	–	(19,683)	–	(193,785)	213,468	–	–
Impact on change in assumptions	–	(837,752)	–	93,284	492,002	–	(252,466)
Balance at December 31, 2022	₱–	₱2,116,686	₱–	₱1,408,896	₱1,641,771	₱–	₱5,167,353

NOTES TO FINANCIAL STATEMENTS

An analysis of changes in the ECL allowances for other receivables as of December 31, 2023 and 2022 follows (in thousands):

	2023						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Accrued Interest Receivable							
Balance as of January 1, 2023	₱–	18,183	₱–	18,826	25,734	₱–	62,743
New assets originated or purchased	–	13,079	–	2,345	9,193	–	24,617
Assets derecognized or repaid	–	(1,855)	–	(4,094)	(15,174)	–	(21,123)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	2,621	–	(2,459)	(162)	–	–
Transfers to Stage 2	–	(2,267)	–	2,657	(390)	–	–
Transfers to Stage 3	–	(568)	–	(2,317)	2,885	–	–
Impact on change in assumptions	–	(10,167)	–	130	16,027	–	5,990
Balance at December 31, 2023	–	19,026	–	15,088	38,113	–	72,227
Sales Contract Receivable							
Balance as of January 1, 2023	–	1	–	11	172	–	184
New assets originated or purchased	–	–	–	–	–	–	-
Assets derecognized or repaid	–	–	–	(6)	(37)	–	(43)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	6	–	(6)	–	–	–
Transfers to Stage 2	–	–	–	3	(3)	–	–
Transfers to Stage 3	–	–	–	–	–	–	–
Impact on change in assumptions	–	(1)	–	17	414	–	430
Balance at December 31, 2023	–	6	–	19	546	–	571
Total Other Receivables							
Balance as of January 1, 2023	–	18,184	–	18,837	25,906	–	62,927
New assets originated or purchased	–	13,079	–	2,345	9,193	–	24,617
Assets derecognized or repaid	–	(1,855)	–	(4,100)	(15,211)	–	(21,166)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	2,627	–	(2,465)	(162)	–	–
Transfers to Stage 2	–	(2,267)	–	2,660	(393)	–	–
Transfers to Stage 3	–	(568)	–	(2,317)	2,885	–	–
Impact on change in assumptions	–	(10,168)	–	147	16,441	–	6,420
Balance at December 31, 2023	₱–	₱19,032	₱–	₱15,107	₱38,659	₱–	₱72,798

	2022						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Accrued Interest Receivable							
Balance as of January 1, 2022	₱–	₱10,935	₱–	₱21,796	₱708,635	₱–	₱741,366
New assets originated or purchased	–	11,597	–	1,630	1,857	–	15,084
Assets derecognized or repaid	–	(1,280)	–	(6,065)	(699,190)	–	(706,535)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	4,409	–	(4,044)	(365)	–	–
Transfers to Stage 2	–	(1,148)	–	2,032	(884)	–	–
Transfers to Stage 3	–	(142)	–	(1,962)	2,104	–	–
Impact on change in assumptions	–	(6,188)	–	5,439	13,577	–	12,828
Balance at December 31, 2022	–	18,183	–	18,826	25,734	–	62,743
Sales Contract Receivable							
Balance as of January 1, 2022	–	1	–	80	216	–	297
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	–	–	–	(73)	–	–	(73)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	29	–	–	(29)	–	–
Transfers to Stage 2	–	–	–	11	(11)	–	–
Transfers to Stage 3	–	–	–	–	–	–	–
Impact on change in assumptions	–	(29)	–	(7)	(4)	–	(40)
Balance at December 31, 2022	–	1	–	11	172	–	184
Total Other Receivables							
Balance as of January 1, 2022	–	10,936	–	21,876	708,851	–	741,663
New assets originated or purchased	–	11,597	–	1,630	1,857	–	15,084
Assets derecognized or repaid	–	(1,280)	–	(6,138)	(699,190)	–	(706,608)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	4,438	–	(4,044)	(394)	–	–
Transfers to Stage 2	–	(1,148)	–	2,043	(895)	–	–
Transfers to Stage 3	–	(142)	–	(1,962)	2,104	–	–
Impact on change in assumptions	–	(6,217)	–	5,432	13,573	–	12,788
Balance at December 31, 2022	₱–	18,184	₱–	18,837	25,906	₱–	₱62,927

NOTES TO FINANCIAL STATEMENTS

The ECL allowance on accounts receivables of the Bank based on their aging as of December 31, 2023 and 2022 follows:

Age of accounts receivables	**2023**	2022
Up to 1 month	**₱5,566,498**	₱54,242,512
> 1 to 2 months	**1,710,417**	1,156,531
> 2 to 3 months	**1,103,576**	4,794,464
More than 3 months	**500,601,795**	489,667,213
	₱508,982,286	₱549,860,720

As of December 31, 2023 and 2022, the Bank's undrawn portion of committed credit lines amounted to ₱4.0 billion and ₱3.3 billion, respectively. As of December 31, 2023 and 2022, provision on undrawn portion of committed credit lines amounted to ₱132.8 million and ₱208.3 million, respectively (Note 19).

The details of provisions (reversals) under the statements of income follow:

	2023	2022
Loans and receivables (Note 9)	**₱1,456,586,418**	₱1,206,835,408
Investment properties (Note 12)	**12,184,936**	103,982,048
Investment securities	**(4,894,264)**	(17,348,853)
Due from other banks	**(13,461,465)**	13,572,089
Due from BSP	**–**	(1,174,300)
Chattel mortgage (Note 14)	**674,171**	376,044
	₱1,451,089,796	₱1,306,242,436

16. **Deposit Liabilities**

Interest expense on deposit liabilities consists of:

	2023	2022	2021
Time (Note 29)	**₱5,307,552,802**	₱2,416,715,820	₱1,142,132,528
LTNCD	**260,840,070**	295,891,550	393,609,027
Demand (Note 29)	**50,405,931**	54,394,093	55,002,193
Savings	**44,377,682**	44,392,032	46,490,171
	₱5,663,176,485	₱2,811,393,495	₱1,637,233,919

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.10% to 6.25% in 2023, from 0.10% to 6.00% in 2022 and 2021, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.05% to 6.25% in 2023, from 0.05% to 0.25% in 2022 and from 0.05% to 0.38% in 2021. Effective interest rates on deposit liabilities range from 0.10% to 5.30% in 2023, from 0.10% to 3.94% in 2022, and from 0.10% to 3.95% in 2021.

In 2023, the Bangko Sentral ng Pilipinas issued BSP Circular No. 1175 reducing the reserve requirements against deposits to 2.00% from 3.00% for thrift banks. As of December 31, 2023 and 2022, Due from BSP amounting to ₱3.3 billion and ₱6.3 billion, respectively, was set aside as reserves for deposit liabilities. As reported to the BSP, the Bank is in compliance with such regulations as of December 31, 2023 and 2022.

On December 8, 2016, the BSP authorized the Bank to issue LTNCDs up to ₱10.0 billion through one or multiple tranches over a period of one year. On January 30, 2017, the Bank issued the first tranche of LTNCDs amounting to ₱3.4 billion with a tenor of five (5) years and three (3) months and due on April 30, 2022 with interest rate of 3.50% per annum payable quarterly. The minimum investment size for the LTNCDs is ₱50,000 with increments of ₱50,000 thereafter. Subject to BSP Rules, the Bank has the option to pre-terminate the LTNCDs as a whole but not in part, prior to maturity and on any interest payment date at face value plus accrued interest covering the accrued and unpaid interest.

On July 13, 2018, the BSP authorized the Bank to issue LTNCDs up to ₱15.0 billion through one or multiple tranches over a period of one year. On August 9, 2018, the Bank issued the first tranche of LTNCDs amounting to ₱5.1 billion with a tenor of five (5) years and six (6) months and due on February 9, 2024 with interest rate of 5.00% per annum payable quarterly. The minimum investment size for the LTNCDs is ₱50,000 with increments of ₱50,000 thereafter. Subject to BSP Rules, the Bank has the option to pre-terminate the LTNCDs as a whole but not in part, prior to maturity and on any interest payment date at face value plus accrued interest covering the accrued and unpaid interest.

As of December 31, 2023 and 2022, deferred financing cost on LTNCDs amounted to ₱0.3 million and ₱6.9 million, respectively. Amortization of deferred financing cost amounted to ₱6.6 million and ₱9.8 million in 2023 and 2022, respectively.

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17. Bills Payable and Bonds Payable

Bills Payable

As of December 31, 2023, these include SSURA amounting to ₱271.9 million which pertains to borrowings from counterparties secured by pledge of government securities with maturities ranging from 7 to 65 days and annual interest rate ranges from 4.79% to 5.91%. As of December 31, 2022, SSURA amounted to ₱1.2 billion with maturities ranging from 48 to 61 days and annual interest rate ranges from 5.05% to 5.09%.

Interest expense on bills payable in 2023, 2022, and 2021 amounted to ₱35.3 million, ₱21.9 million, and ₱42.0 thousand, respectively (Note 29).

Bonds Payable

On February 4, 2020, the Bank issued fixed rate bonds amounting to ₱4.7 billion with a tenor of three (3) years and due on February 4, 2023 with interest rate of 4.5% per annum payable quarterly. The minimum investment size for the bonds payable is ₱0.5 million with increments of ₱0.1 million thereafter. As of December 31, 2022, the carrying amount of these bonds is ₱4.6 billion. Debt issuance cost related to the issuance amounted to ₱42.7 million.

Interest expense incurred on bonds due in 2023 amounted to ₱20.7 million in 2023, ₱224.0 million in 2022 and ₱223.4 million in 2021. Amortization of debt issuance costs amounted to ₱1.6 million in 2023, ₱14.8 million in 2022 and ₱14.2 million in 2021.

On July 24, 2019, the Bank issued fixed rate bonds amounting to ₱6.3 billion with a tenor of two (2) years and due on July 24, 2021 with interest rate of 5.6% per annum payable quarterly. The minimum investment size for the bonds payable is ₱0.5 million with increments of ₱0.1 million thereafter. Debt issuance cost related to the issuance amounted to ₱56.9 million. The ₱6.3 billion fixed rate bonds matured in July 2021.

Interest expense incurred on bonds due in 2021 amounted to ₱214.1 million in 2021, while amortization of debt issuance costs amounted to ₱17.1 million.

NOTES TO FINANCIAL STATEMENTS

18. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2023	2022
Accrued interest payable	**₱515,706,331**	₱505,829,516
Accrued other taxes and licenses payable	**304,180,386**	266,157,660
Accrued other expenses payable (Note 29)	**1,843,650,786**	1,734,229,560
	₱2,663,537,503	₱2,506,216,736

Accrued other expenses payable consists of:

	2023	2022
Litigation	**₱627,167,507**	₱587,480,311
Compensation and fringe benefits	**597,067,561**	392,066,163
Insurance (Note 29)	**189,856,417**	210,077,209
Information technology (Note 29)	**148,708,322**	153,439,962
Repairs and maintenance	**50,282,060**	62,182,060
Security, messengerial and janitorial	**39,070,448**	81,558,182
Rental - ATM Offsites	**37,989,751**	39,542,282
Advertising	**34,173,067**	64,536,154
ATM maintenance	**24,040,826**	31,025,175
Donations	**23,369,956**	13,355,355
Membership, fees and dues	**3,773,951**	3,773,951
Miscellaneous	**68,150,920**	95,192,756
	₱1,843,650,786	₱1,734,229,560

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

Miscellaneous include accruals for utilities and maintenance and other expenses.

19. Other Liabilities

This account consists of:

	2023	2022
Financial liabilities		
Accounts payable (Note 29)	**₱1,998,393,906**	₱2,087,042,216
Lease liabilities (Note 25)	**1,181,200,923**	1,322,931,895
Other credits	**169,937,805**	169,110,872
Bills purchased – contra (Note 9)	**42,243,033**	–
Overages	**4,108,652**	3,226,191
Deposit for keys – SDB	**741,645**	749,270
	3,396,625,964	3,583,060,444

(Forward)

	2023	2022
Non-financial liabilities		
Net retirement liability (Note 24)	**₱241,017,602**	₱–
Sundry credits	**222,364,272**	149,968,105
Provision on undrawn portion of committed credit lines (Note 15)	**132,829,383**	208,286,386
Withholding taxes payable	**116,772,129**	120,565,498
Due to the Treasurer of the Philippines	**36,437,950**	20,417,050
SSS, Medicare, ECP and HDMF premium payable	**20,016,801**	17,276,348
Miscellaneous (Note 29)	**40,870,530**	54,793,755
	810,308,667	571,307,142
Total	**₱4,206,934,631**	₱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.

As of December 31, 2023 and 2022, miscellaneous liabilities include incentives for housing loan customers that are compliant with the payment terms amounting to nil and ₱16.1 million, respectively.

20. 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):

	December 31					
	2023			2022		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱1,653,555**	**₱–**	**₱1,653,555**	₱1,930,720	₱–	₱1,930,720
Due from BSP - gross	**9,745,634**	**–**	**9,745,634**	37,553,244	–	37,553,244
Due from other banks - gross	**1,765,439**	**–**	**1,765,439**	2,925,164	–	2,925,164
Interbank loans receivable and SPURA - gross (Note 7)	**6,989,636**	**–**	**6,989,636**	2,669,609	–	2,669,609
FVTPL investments (Note 8)	**414,298**	**–**	**414,298**	36	–	36
Financial assets at FVOCI (Note 8)	**52,558,045**	**1,801,649**	**54,359,694**	68,059,345	1,601,371	69,660,716
Investment securities at amortized cost – gross (Note 8)	**1,545,720**	**28,361,334**	**29,907,054**	1,040,479	29,400,379	30,440,858
Loans and receivables - gross (Note 9)	**13,806,138**	**115,236,813**	**129,042,951**	14,010,117	101,652,600	115,662,717
Other assets* (Note 14)	**236,741**	**164,273**	**401,014**	31,219	172,131	203,350
	88,715,206	**145,564,069**	**234,279,275**	128,219,933	132,826,481	261,046,414
Nonfinancial Assets						
Investment in a joint venture (Note 10)	**–**	**870,179**	**870,179**	–	816,285	816,285
Property and equipment - gross (Note 11)	**–**	**8,651,605**	**8,651,605**	–	8,370,034	8,370,034
Investment properties - gross (Note 12)	**–**	**4,626,023**	**4,626,023**	–	4,717,707	4,717,707
Deferred tax assets (Note 27)	**–**	**1,257,608**	**1,257,608**	–	280,114	280,114
Intangible assets and goodwill - gross	**–**	**404,410**	**404,410**	–	436,742	436,742
Other assets - gross** (Note 14)	**276,873**	**736,797**	**1,013,670**	246,041	620,804	866,845
	276,873	**16,546,622**	**16,823,495**	246,041	15,241,686	15,487,727
Less: Allowance for credit and impairment losses (Note 15)			**6,383,451**			6,039,911
Accumulated depreciation and amortization (Notes 11, 12, 13 and 14)			**6,171,020**			5,887,948
Unearned discounts and capitalized interest (Note 9)			**115,003**			185,273
			12,669,474			12,113,132
			₱238,433,296			₱264,421,009

* Other assets under financial assets comprise security deposits, liquidity requirement for electronic money products, 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.

NOTES TO FINANCIAL STATEMENTS

	December 31					
	2023			2022		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Liabilities						
Deposit liabilities (Note 16)	**₱174,454,708**	**₱15,167,996**	**₱189,622,704**	₱193,445,791	₱20,326,402	₱213,772,193
Bills payable	**271,896**	–	**271,896**	1,185,945	–	1,185,945
Bonds payable (Note 17)	–	–	–	4,648,450	–	4,648,450
Treasurer's, cashier's and manager's checks	**1,514,066**	–	**1,514,066**	1,014,226	–	1,014,226
Accrued other expenses payable (Note 18)	**1,843,651**		**1,843,651**	1,734,229		1,734,229
Accrued interest payable (Note 18)	**515,706**	–	**515,706**	505,830	–	505,830
Other liabilities* (Note 19)	**2,574,961**	**821,665**	**3,396,626**	2,654,199	928,861	3,583,060
	181,174,988	**15,989,661**	**197,164,649**	205,188,670	21,255,263	226,443,933
Nonfinancial Liabilities						
Accrued other taxes and licenses payable (Note 18)	**304,180**	–	**304,180**	266,158	–	266,158
Other liabilities** (Note 19)	**551,507**	**258,802**	**810,309**	400,922	170,385	571,307
	855,687	**258,802**	**1,114,489**	667,080	170,385	837,465
	₱182,030,675	**₱16,248,463**	**₱198,279,138**	₱205,855,750	₱21,425,648	₱227,281,398

* Other liabilities under financial liabilities comprise accounts payable, lease liabilities, bills purchased contra, 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.

21. Equity

Issued Capital

As of December 31, 2023 and 2022, the Bank's capital stock consists of:

	2023		2022	
	Shares	**Amount**	Shares	Amount
Authorized common stock - ₱10.0 par value	**600,000,000**	**₱6,000,000,000**	600,000,000	₱6,000,000,000
Issued and outstanding				
Beginning balance	**426,859,416**	**₱4,268,594,160**	426,859,416	₱4,268,594,160
Ending balance	**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

As of December 31, 2023 and 2022, the total number of stockholders is 1,438, and 1,443, with share price closed at ₱53.0 and ₱56.5, 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 ₱4.3 billion to ₱6.0 billion and (b) the declaration of a 11.42% stock dividend equivalent to 43,750,000 shares amounting to ₱2.6 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

₱4.3 billion to ₱6.0 billion consisting of 600.0 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
April 27, 2023	0.75	320,144,562	May 15, 2023	May 29, 2023
July 20, 2023	0.75	320,144,562	August 4, 2023	August 22, 2023
October 19, 2023	0.75	320,144,562	November 8, 2023	November 20, 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

On October 9, 2015, the BSP issued Circular No. 888, Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments, which liberalized said rules in the sense that prior BSP verification and approval is no longer required except for banks with major supervisory concerns. However, banks are bound to comply with the provisions of Section X136 of the Manual of Regulations for Banks (MORB) and its subsections, including the submission of documentary requirements under Subsection X136.4 of the MORB. Otherwise, banks, subsequently found to have violated the provisions on dividend declaration or have falsely certified/submitted misleading statements shall be reverted to the prior BSP verification wherein the bank can only make an announcement or communication on the declaration of the dividends or payment of dividends thereon upon receipt of BSP advice thereof. The Bank is compliant with the said circular.

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.

In compliance with BSP regulations, 10.00% of the Bank's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Bank's authorized capital stock.

A portion of the surplus corresponding to the accumulated net earnings of a joint venture is not available for dividend declaration until receipt of cash dividends from the investee.

NOTES TO FINANCIAL STATEMENTS

Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements, as mandated by the BSP, and that the Bank maintains healthy capital ratios in order to support its business and maximize returns for its shareholders. The Bank considers its paid in capital and surplus as its capital.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders or issue capital securities. The major activities in this area include the following:

- The Bank issued additional common shares for its qualified stockholders in 2008 and 2006 through stock rights offerings that raised ₱2.0 billion and ₱750.0 million in capital, respectively.

- On October 21, 2016, the BOD approved the Bank's updated Dividend Policy which provides, among others, the declaration and payment of cash dividends at a rate of ₱0.75 per share on a quarterly basis unless approved by a majority vote of the BOD at a different rate or otherwise restricted/prohibited from declaring/paying dividends.

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.

The CAR of the Bank as of December 31, as reported to the BSP, based on BSP Circular No. 781 and BSP Circular No. 538, respectively, are shown in the table below (amounts in millions).

	2023	2022
Tier 1 capital	**₱38,876**	₱35,685
CET1 capital	**38,876**	35,685
Less: Required deductions	**2,998**	2,164
Total Tier 1 Capital	**35,878**	33,521
Total Tier 2 capital	**1,368**	1,193
Total qualifying capital	**37,246**	34,714
Risk weighted assets	**₱152,250**	₱139,713
Tier 1 ratio	**23.56%**	23.99%
CET1 ratio	**23.56%**	23.99%
Capital adequacy ratio	**24.46%**	24.85%

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. 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 December 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.

NOTES TO FINANCIAL STATEMENTS

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.

BASEL III Leverage Ratio (BLR)
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 December 31, 2023 and 2022, the Bank maintains these ratios above minimum requirements as shown in the table below (in millions):

	December 31, 2023	December 31, 2022
A. Capital Measure	**₱35,878**	₱33,521
B. Exposure Measure	**236,514**	263,482
C. Basel III Leverage Ratio (A/B)	**15.17%**	12.72%

Liquidity Coverage Ratio (LCR)
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 (70.00%) LCR floor for subsidiary banks and QBs during the observation period, (3) minimum requirement of one hundred (100.00%) starting January 1, 2020. As of December 31, 2023 and 2022, the LCR in single currency as reported to the BSP, is 167.91% and 158.70%, respectively.

Net Stable Funding Ratio (NSFR)
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 (70.00%) 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 100.00%. As of December 31, 2023 and 2022, the NSFR as reported to the BSP is at 139.01% 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 (2.50%); and
- Countercyclical capital buffer (CCyB) of zero percent (0.00%) 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 (2.50%). 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.

22. Net Service Fees and Commission Income

This account consists of:

	2023	2022	2021
Service Fees and Commission Income			
Credit-related fees and commissions	**₱1,140,696,592**	₱1,114,725,360	₱1,056,749,812
Deposit-related and other fees received (Note 29)	**605,852,203**	571,145,496	478,174,952
Trust fees	**46,194,120**	46,971,038	46,202,084
	1,792,742,915	1,732,841,894	1,581,126,848
Service Fees and Commission Expense			
Commissions	**59,629,263**	45,200,420	42,225,973
Brokerage	**5,954,675**	6,108,650	5,590,759
	65,583,938	51,309,070	47,816,732
Net Service Fees and Commission Income	**₱1,727,158,977**	₱1,681,532,824	₱1,533,310,116

NOTES TO FINANCIAL STATEMENTS

23. Miscellaneous Income

This account consists of:

	2023	2022	2021
Recovery of charged-off assets	**₱311,361,694**	₱339,337,767	₱360,147,032
Insurance commission income	**85,545,555**	202,199,914	110,057,949
Rental income (Notes 12, 25 and 29)	**48,255,017**	45,235,373	43,767,739
Others (Notes 9 and 29)	**137,698,703**	191,002,283	186,458,085
	₱582,860,969	₱777,775,337	₱700,430,805

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. Accretion of modified loans amounted to ₱70.1 million, ₱107.0 million and ₱134.6 million in 2023, 2022 and 2021, respectively (Note 9).

24. Retirement Benefits

The Bank has a funded, noncontributory defined benefit plan covering substantially all of its employees. The benefits are based on years of service and final compensation.

The plan administered by the Retirement Committee is composed of five (5) members appointed by the BOD of the Bank. The Retirement Committee has all the powers necessary or useful in the discharge of its duties of administration including, but not limited to determining the rights of Members under the Plan. The Retirement Committee may adopt such rules and regulations as it deems necessary and desirable, including those governing the establishment of procedures, the use of necessary forms, and the setting up of minimum periods where notice is required. The Retirement Committee may seek advice of counsel, and may appoint an independent accountant to audit the Plan and actuary to value the plan periodically, whose professional fees and expenses may be charged to the Fund.

Under the existing regulatory framework, RA No. 7641, *Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The date of the latest actuarial valuation is December 31, 2023.

The amounts of pension expense included in 'Compensation and fringe benefits' in the statements of income follow:

	2023	2022
Current service cost	**₱226,594,870**	₱227,706,990
Net interest cost	**(25,701,492)**	(20,012,154)
	₱200,893,378	₱207,694,836

The net retirement liability/retirement asset shown under 'Other liabilities'/'Other assets' recognized in the Bank's statements of condition follows (in thousands):

	2023											
		Net benefit cost				Remeasurements in other comprehensive income						
	January 1, 2023	Current service cost	Net Interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2023
Present value of defined benefit obligation	₱3,184,063	₱226,595	₱215,671	₱442,266	(₱243,768)	₱–	₱48,880	₱–	₱419,956	₱468,836	₱–	₱3,851,397
Fair value of plan assets	(3,387,473)	–	(241,373)	(241,373)	243,768	38,699	–	–	–	38,699	(264,000)	(3,610,379)
Net retirement liability (Note 19)	(₱203,410)	₱226,595	(₱25,702)	₱200,893	₱–	₱38,699	₱48,880	₱–	₱419,956	₱507,535	(₱264,000)	₱241,018

	2022											
		Net benefit cost				Remeasurements in other comprehensive income						
	January 1, 2022	Current service cost	Net Interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2022
Present value of defined benefit obligation	₱3,113,055	₱227,707	₱147,479	₱375,186	(₱258,642)	₱–	₱89,847	₱–	(₱135,383)	(₱45,536)	₱–	₱3,184,063
Fair value of plan assets	(3,354,894)	–	(167,491)	(167,491)	258,642	199,720	–	–	–	199,720	(323,450)	(3,387,473)
Net retirement asset (Note 14)	(₱241,839)	₱227,707	(₱20,012)	₱207,695	₱–	₱199,720	₱89,847	₱–	(₱135,383)	₱154,184	(₱323,450)	(₱203,410)

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The Bank expects to contribute ₱267.3 million to its noncontributory defined benefit plan in 2024.

NOTES TO FINANCIAL STATEMENTS

The fair values of plan assets by each class as at the statements of condition date are as follows:

	2023	2022
Investment in debt securities		
Government	**₱2,451,193,421**	₱1,910,076,151
Private	**920,955,224**	559,534,342
Special deposit account	**85,080,009**	783,385,635
Unit Investment Trust Fund (UITF)	**44,473,708**	42,561,098
Investment in equity securities	**88,278,813**	77,507,699
Other assets	**23,509,325**	17,327,104
	3,613,490,500	3,390,392,029
Other liabilities	**3,111,617**	2,919,504
	₱3,610,378,883	₱3,387,472,525

The person exercising voting right for the foregoing equity instruments is currently a senior officer of the Bank.

The principal actuarial assumptions used in determining retirement liability as of December 31, 2023 and 2022 are shown below:

	2023	2022
Discount rate	**6.06%**	7.11%
Turnover rate	**3.63%, 10.23%**	3.63%, 10.23%
Future salary increases	**6.00%**	5.50%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	December 31, 2023		December 31, 2022	
	Possible Fluctuations	**Increase (decrease)**	Possible Fluctuations	Increase (decrease)
Discount rate	**+1.00%**	**(₱273,484,652)**	+1.00%	(₱220,438,919)
	-1.00%	**309,243,597**	-1.00%	248,784,290
Turnover rate	**+1.00%**	**(41,410,835)**	+1.00%	(4,330,091)
	-1.00%	**46,374,122**	-1.00%	4,161,186
Future salary increase rate	**+1.00%**	**325,011,656**	+1.00%	265,814,360
	-1.00%	**(292,242,782)**	-1.00%	(239,077,385)

The Retirement Committee ensures that there will be sufficient assets to pay pension benefits as they fall due and maintains the plan on an actuarially sound basis considering the benefits to members.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2023	2022
Less than one year	**₱331,506,031**	₱282,910,375
One to less than five years	**1,611,315,196**	1,407,715,193
Five to less than 10 years	**2,435,184,665**	2,246,907,514
10 to less than 15 years	**3,182,649,515**	2,719,152,541
15 to less than 20 years	**2,463,811,385**	2,489,207,065
20 years and above	**1,993,633,106**	1,744,550,715

The average duration of the expected benefit payments at the statement of condition date is 9.57 years.

25. **Leases**

The Bank leases the premises occupied by its branches for periods ranging from 1 to 30 years renewable under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%.

As of December 31, 2023 and 2022, the carrying amounts of lease liabilities (included in 'Other Liabilities' in Note 19) are as follows:

	2023	2022
Balance at beginning of year	**₱1,322,931,895**	₱1,278,685,842
Additions	**312,921,930**	523,368,707
Accretion of interest	**78,902,394**	79,873,386
Payments	**(533,555,296)**	(558,996,040)
	₱1,181,200,923	₱1,322,931,895

The Bank recognized interest expense on lease liabilities (included in 'Interest expense' in the statements of income) amounting to ₱78.9 million, ₱79.9 million and ₱85.2 million in 2023, 2022 and 2021, respectively, rent expense from short-term leases and leases of low-value assets amounting (included in 'Occupancy and equipment-related costs' in the statements of income) to ₱111.9 million in 2023, ₱116.2 million in 2022 and ₱130.9 million in 2021.

Future minimum rentals payable under non-cancelable operating leases are as follows:

	2023	2022
Within one year	**₱428,533,488**	₱469,115,714
After one year but not more than five years	**822,505,612**	918,298,112
More than five years	**110,940,089**	145,925,243
	₱1,361,979,189	₱1,533,339,069

The Bank has also entered into commercial property leases on its surplus office space. These non-cancelable leases have remaining non-cancelable lease terms between 1 and 5 years. As of December 31, 2023 and 2022, there is no contingent rental income. Rental income of the Bank related to these property leases amounting to ₱48.3 million, ₱44.1 million, and ₱42.4 million in 2023, 2022 and 2021, respectively are shown under 'Miscellaneous income' in the statements of income (Notes 12 and 23).

Future minimum rentals receivable under non-cancelable operating leases are as follows:

	2023	2022
Within one year	**₱17,577,256**	₱39,072,786
After one year but not more than five years	**20,901,344**	38,478,565
	₱38,478,600	₱77,551,351

NOTES TO FINANCIAL STATEMENTS

26. Miscellaneous Expenses

This account consists of:

	2023	2022	2021
Information technology (Note 29)	**₱424,653,503**	₱407,689,037	₱375,290,002
Insurance (Note 29)	**388,308,751**	453,534,299	550,608,756
Litigation	**242,115,429**	429,974,439	442,289,577
Communications	**134,362,180**	147,148,701	167,554,452
Repairs and maintenance (Note 12)	**116,111,217**	171,424,078	110,147,726
Fines, penalties and other charges	**86,521,098**	206,509,947	150,222,885
Supervision and examination fees	**73,281,388**	75,405,438	75,845,625
Transportation and traveling	**57,354,683**	52,967,086	50,559,908
Advertising	**52,841,936**	22,092,410	11,076,666
Stationery and supplies	**41,097,311**	82,824,439	46,355,039
Management and professional fees	**25,393,062**	25,473,105	23,048,029
Training and seminars	**14,607,368**	26,880,748	2,449,846
Banking activities expenses	**12,585,850**	9,360,794	4,642,771
Donations and charitable contributions	**11,148,601**	7,122,605	6,812,000
Membership fees and dues	**2,937,377**	2,699,211	3,827,410
Others	**7,526,954**	9,614,270	61,472,300
	₱1,690,846,708	₱2,130,720,607	₱2,082,202,992

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation (PDIC) amounting to ₱388.3 million, ₱429.2 million, and ₱412.9 million in 2023, 2022 and 2021, 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. These also include payments to union members amounting to ₱9.5 million, ₱9.4 million and ₱10.1 million in 2023, 2022 and 2021, respectively, for the successful completion of the collective bargaining agreement.

27. Income and Other Taxes

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 2023 and 2022. 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.

Provision for income tax consists of:

	2023	2022	2021
Current:			
Final tax	**₱1,131,814,810**	₱709,425,111	₱356,565,831
Current income tax	**76,759,110**	73,891,205	(44,382,280)
	1,208,573,920	783,316,316	312,183,551
Deferred	**(850,610,415)**	335,219,072	1,414,071,157
	₱357,963,505	₱1,118,535,388	₱1,726,254,708

Net deferred tax assets consist of the following tax effects:

	2023	2022
Deferred tax assets on:		
Retirement benefit obligation	**₱376,391,576**	₱249,507,924
Unamortized pension cost contribution	**149,120,044**	158,720,206
Accumulated depreciation of assets foreclosed or dacioned	**103,472,613**	97,763,184
Allowance for credit and impairment losses	**952,022,697**	66,874,352
Net effect of lease liabilities and ROU assets	**48,590,683**	54,055,554
Loan modification	**21,513,010**	46,215,270
Net unrealized gain on fair value of FVOCI	**3,867,981**	4,618,954
Unrealized foreign exchange gains	**334,414**	1,984,235
	1,655,313,018	679,739,679
Deferred tax liabilities on:		
Net unrealized gain on investment properties	**(397,705,408)**	(399,626,135)
	(397,705,408)	(399,626,135)
	₱1,257,607,610	₱280,113,544

NOTES TO FINANCIAL STATEMENTS

Income tax effect credited (debited) in OCI amounted to ₱126.9 million, ₱38.5 million, and (₱48.4 million) (excluding impact of CREATE) in 2023, 2022, and 2021, respectively.

As of December 31, 2023 and 2022, the Bank did not recognize deferred tax assets on the following temporary differences:

	2023	2022
Allowance for credit and impairment losses	**₱2,708,935,506**	₱5,981,653,248
Excess MCIT over RCIT	–	70,226,677
	₱2,708,935,506	₱6,051,879,925

The Bank believes that it is not reasonably probable that the tax benefits of these temporary differences will be realized in the future.

Details of the excess MCIT over RCIT credits of the Bank follow:

	Amount	Used/Expired	Balance	Expiry Year
2021	₱34,998,663	₱34,998,663	₱–	2024
2022	35,228,014	35,228,014	–	2025
	₱70,226,677	₱70,226,677	₱–	–

The reconciliation between the statutory income tax and effective income tax follows (in thousands):

	2023	2022	2021
Statutory income tax	**₱1,222,256**	₱1,199,241	₱816,437
Tax effects of:			
Change in unrecognized DTA	**(888,406)**	(137,478)	1,073,320
Non-taxable, tax-paid and tax-exempt income	**(307,780)**	(245,782)	(425,082)
Nondeductible expenses	**306,566**	233,564	161,201
Effect of change in tax rate	–	–	174,295
FCDU income	**(11,467)**	(74,895)	(87,686)
Others	**36,795**	143,885	13,770
Effective income tax	**₱357,964**	₱1,118,535	₱1,726,255

28. Earnings Per Share

The following table presents information used to calculate basic EPS:

	2023	2022	2021
a. Net income	**₱4,531,061,864**	₱3,678,428,259	₱1,539,492,720
b. Weighted average number of common shares for basic earnings per share	**426,859,416**	426,859,416	426,859,416
c. Basic/Diluted EPS (a/b)	**₱10.61**	₱8.62	₱3.61

As of December 31, 2023, 2022 and 2021, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

29. **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., second 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 total fair value of the retirement fund as of December 31, 2023 and 2022 amounted to ₱3.6 billion and ₱3.4 billion, respectively. The details of the assets of the fund as of December 31, 2023 and 2022 are disclosed in Note 24.

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 December 31, 2023 and 2022:

		2023	
		Elements of Transaction	
Related Party	Nature of Transaction	Statement of Condition	Statement of Income
Philippine Savings Bank	Savings Deposit	**₱5,081,077**	**₱–**
	Investment in Money Market Fund*	**44,473,708**	–
	Income from UITF**	–	**1,913,824**
	Interest income	–	**15,523**
First Metro ETF	Equity investment***	**25,255,881**	–

*Includes fair value gains of ₱2.0 million
**Includes fair value gains of ₱1.5 million
***Includes fair value loss of ₱1.7 million

NOTES TO FINANCIAL STATEMENTS

		2022	
		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 ₱0.1 million
**Includes fair value loss of ₱0.04 million
***Includes fair value loss of ₱0.35 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:

	2023	2022
Short-term employee benefits	**₱399,163,834**	₱369,283,571
Post-employment pension benefits	**2,694,653**	1,272,282
	₱401,858,487	₱370,555,853

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

Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱19.1 million, ₱21.5 million, and ₱22.1 million in 2023, 2022, and 2021, respectively.

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):

	December 31, 2023		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Parent Company			
Due from other banks	**(₱462,999)**	**₱1,129,054**	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**	Pledged for security of payroll account with MBTC
Interbank loans receivable		**–**	Peso denominated lending with fixed interest rate ranging from 6.19% to 6.41% maturities ranging from 1 to 5 days, secured - Php 0.00
Placements	**27,000,000**		
Maturities	**(27,000,000)**		
Accounts receivable	**2,118**	**3,424**	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Miscellaneous assets	**857**	**857**	Security deposits on lease contracts
Miscellaneous liabilities	**1,189**	**3,558**	Advance payments of security deposits from various tenants

(Forward)

NOTES TO FINANCIAL STATEMENTS

	December 31, 2023		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Deposit liabilities	₱–	₱36,782	Short term peso and foreign-currency denominated deposits
Accrued other expense payable	(128,137)	25,303	Outstanding information technology expense payable
Interest income	9,717		Income on deposits and interbank loans receivables
Rental income	9,039	–	Income from leasing agreements with various lease terms ranging from 1 to 5 years
Rent expense	122	–	Payment of rent
Information technology expense	112,411	–	Payment of information technology transactions
Securities transactions			
Outright purchases	60,000	–	Outright purchase of FVOCI investments
Joint Venture			
Investment in a joint venture	27,564	843,849	Outstanding balance of capital investment in SMFC
Dividends from joint venture	57,600	–	Dividends from SMFC
Accounts receivable	(716)	285	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	313,170	389,051	Short term peso time-deposits deposits with annual fixed rates ranging from 5.50% to 5.75%
Miscellaneous liabilities	–	7,861	Advance payment of security deposits
Rental income	12,204	–	Income from leasing agreements
Interest expense	20	–	Interest on deposit liabilities
Other Related Parties (DOSRI/Indirect)			
Receivable from customers		1,141,082	Peso denominated lending with interest rates ranging from 3.00% to
Placements	950,000	–	4.83% with maturity terms of 14 days to 5 years (excluding key
Maturities	(951,433)	–	personnel); mostly unsecured, with ECL
Miscellaneous assets	4,138	4,138	Security deposits
Accounts receivable	372	1,045	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Prepaid insurance	(2,220)	4,226	Payment of various motor car vehicles, fire, money, security, payroll and robbery insurance
Deposit liabilities	225,907	3,767,112	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	(705)	446	Outstanding group life insurance
Accounts payable	(8,304)	(455)	Various personal and car insurance payable
Miscellaneous liabilities	2,905	4,777	Advance payment of security deposits
Rental income	42,771	–	Income from leasing agreements with various lease terms
Insurance expense	29,846	–	Payment of insurance premium
Interest expense	244	–	Interest on deposit liabilities
Rent expense	165	–	Payment of rent expense to various lessors
Securities transactions			
Outright purchases	236,792	–	Outright purchase of Financial Assets at amortized cost
Key Personnel			
Receivables from customers		13,914	Unsecured, no impairment, with annual
Availments	2,975	–	fixed interest rates of 6.00%
Maturities	(557)	–	and maturities ranging from 2 to 10 years
Interest income	1,038	–	Interest income from loans

	December 31, 2022		
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 FVTPL, AC and FVOCI investments
Outright sales	(104,000)	–	Outright sale of FVTPL and FVOCI 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%

(Forward)

NOTES TO FINANCIAL STATEMENTS

	December 31, 2022		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
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 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 FVTPL and FVOCI investments
Outright sales	(150,000)	–	Outright sale of FVTPL and FVOCI 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

	December 31, 2021		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Parent Company			
Due from other banks	(₱267,443)	₱1,106,884	Short term peso and foreign-currency denominated deposits with fixed rates ranging from 0.00% to 5.00%
Financial assets at FVOCI	–	59,718	Pledged for security of MBTC's payroll account with the Bank.
Accounts receivable (payable)	7,698	5,789	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Miscellaneous assets	114	1,948	Security deposits on lease contracts
Miscellaneous liabilities	–	5,919	Advance payments of security deposits from various tenants
Accrued other expense payable	21,819	90,403	Outstanding information technology expense payable, charges on current and savings accounts processing
Rental income	12,099	–	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	22,033	–	Service income received from collection services
Information technology expense	154,170	–	Payment of information technology expenses
Trading and security loss	(3,242)	–	Loss from securities transactions
Securities transactions			
Outright purchases	11,770,583	–	Outright purchase of FVTPL, AC and FVOCI investments
Outright sales	(150,000)	–	Outright sale of FVTPL and FVOCI investments
Joint Venture			
Investment in a joint venture	57,449	762,926	Outstanding balance of capital investment in SMFC; movements in outstanding balance pertain to share in net income and other comprehensive income less dividends received
Dividends from joint venture	11,580	–	Dividends from SMFC
Accounts receivable	688	905	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	(474,007)	14,000	Demand and short-term peso time deposits with annual fixed rates of 1.25%
Miscellaneous liabilities	7,861	7,861	Payment of security deposits
Rental income	16,288	–	Income from leasing agreements
Miscellaneous income	6,882	–	Utilities and rental charges
Interest expense	66	–	Interest on deposit liabilities

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2021		
Other Related Parties (DOSRI/Indirect)			
Receivable from customers	₱–	₱1,155,312	Loans granted bear interest of ranging 3.0% to 10.50% with terms from 12 to 60 months (excluding key personnel); mostly unsecured; no impairment
Placements	1,159,611	–	
Maturities	1,176,688	–	
Miscellaneous assets	353	2,949	Three months advance security deposits
Accounts receivable	(4,908)	1,785	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Prepaid expense	5,455	12,228	Payment for various motor car vehicles, fire, money, security, payroll and robbery insurance
Deposit liabilities	7,044,834	7,959,885	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	–	1,151	Outstanding group life insurance
Accounts payable	368	369	Various personal and car insurance payable
Miscellaneous liabilities	–	1,872	Advance payment of security deposits from various tenants
Interest income	67,649	–	Income on receivables from customers and interbank loans receivables
Trading and securities loss	499	–	Loss from securities transactions
Rental income	7,785	–	Income from leasing agreements with various lease terms
Bank commission	1,936	–	Commission income on ATM service fees
Miscellaneous income	3,751	–	Service income received from insourcing agreements
Insurance expense	60,997	–	Payment of insurance premium
Interest expense	1,075	–	Interest on deposit liabilities
Rent expense	1,950	–	Payment of rent expense to various lessors
Securities transactions			
Outright purchases	3,269,725	–	Outright purchase of FVTPL and FVOCI investments
Outright sales	(50,000)	–	Outright sale of FVTPL and FVOCI investments
Key Personnel			
Receivables from customers	–	11,068	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Availments	3,699	–	
Maturities	(1,444)	–	Utilities and rental charges
Interest income	824	–	Interest income from loans

30. Trust Operations

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of condition since these are not assets of the Bank.

As of December 31, 2023 and 2022, the Bank deposited government securities with carrying value of ₱123.9 million and ₱180.5 million, respectively, in compliance with trust regulations (Note 8).

In compliance with existing banking regulations, the Bank transferred from surplus to surplus reserve the amount of ₱2.4 million and ₱2.5 million, which corresponds to 10.00% of the net income realized from the Bank's Trust Department in 2023 and 2022, respectively.

31. 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.

NOTES TO FINANCIAL STATEMENTS

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

	2023	2022
Trust department accounts (Note 30)	**₱9,295,113,015**	₱8,825,860,829
Stand-by credit lines	**41,100,000**	122,000,000
Spot foreign exchange and contracts sale	**27,685,000**	27,877,500
Late deposits/payments received	**290,311**	3,288,413
Items held for safekeeping	**215,511**	240,348
Others	**57,244**	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.

32. Notes to Statements of Cash Flows

The following is a summary of principal non-cash activities that relate to the analysis of the statements of cash flows:

	2023	2022	2021
Additions to chattel mortgage in settlement of loans (Note 14)	**₱2,320,586,633**	₱1,978,930,122	₱3,866,091,965
Additions to investment properties in settlement of loans (Note 12)	**660,520,059**	1,438,182,517	703,230,662
Recognition of right-of-use assets (Note 11) and lease liabilities (Note 25)	**312,921,930**	523,368,707	330,419,191
Fair value changes in financial assets at FVOCI (Note 8)	**119,107,530**	(38,369,287)	(13,033,150)
Cumulative translation adjustment	**399**	(756,081)	(485,670)

The table below provides for the changes in liabilities arising from financing activities in 2023 and 2022 (in millions):

	Bills Payable	**Bonds Payable**	**Lease Liabilities**	**Total Liabilities from Financing Activities**
January 1, 2023	**₱1,186**	**₱4,648**	**₱1,323**	**₱7,157**
Cash flows from availments	**5,068**	**–**	**–**	**5,068**
Cash flows from settlement	**(5,982)**	**(4,650)**	**(534)**	**(11,166)**
Others	**–**	**2**	**392**	**394**
December 31, 2023	**₱272**	**₱–**	**₱1,181**	**₱1,453**

	Bills Payable	Bonds Payable	Lease Liabilities	Total Liabilities from Financing Activities
January 1, 2022	₱–	₱4,633	₱1,279	₱5,912
Cash flows from availments	9,850	–	–	9,850
Cash flows from settlement	(8,664)	–	(559)	(9,223)
Others	–	15	603	618
December 31, 2022	₱1,186	₱4,648	₱1,323	₱7,157

Others include amortization of bills payable and bonds payable, additions to lease liabilities, and accretion and termination of lease liabilities.

As of December 31, 2023 and 2022, the Bank recognized allowance for credit losses from 'Due from other banks' amounting to ₱1.2 million and ₱14.7 million, respectively.

33. Offsetting of Financial Assets and Liabilities

PFRS 7 requires the Bank to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding table.

Financial assets

As of December 31, 2023 and 2022, there were no derivative assets.

December 31, 2023

Financial assets recognized at the end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statement of condition [a-b] [c]	Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d] [e]
				Financial instruments	Fair value of financial collateral [d]	
SPURA (Note 7)	**₱6,989,635,680**	**₱–**	**₱6,989,635,680**	**₱–**	**₱6,989,635,680**	**₱–**

December 31, 2022

Financial assets recognized at the end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statement of condition [a-b] [c]	Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d] [e]
				Financial instruments	Fair value of financial collateral [d]	
SPURA (Note 7)	₱2,651,203,416	₱–	₱2,651,203,416	₱–	₱2,651,203,416	₱–

Financial liabilities

As of December 31, 2023 and 2022, there were no outstanding foreign currency swaps and forwards.

December 31, 2023

Financial assets recognized at the end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statement of condition [a-b] [c]	Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d] [e]
				Financial instruments	Fair value of financial collateral [d]	
SSURA (Note 17)	**₱271,896,461**	**₱–**	**₱271,896,461**	**₱–**	**₱271,896,461**	**₱–**

NOTES TO FINANCIAL STATEMENTS

34. Subsequent Events

Cash Dividend Declaration
On January 18, 2024, the BOD of the Bank approved the declaration of a 7.50% regular cash dividend for the fourth quarter of 2023 for stockholders on record as of February 2, 2024 amounting to ₱320.1 million or ₱0.75 per share, to be paid on February 19, 2024.

35. Approval for the Release of the Financial Statements

The accompanying comparative financial statements by the Bank were authorized for issue by the BOD on February 22, 2024.

36. Supplementary Information Required Under Section 174 of the Manual of Regulations for Banks (MORB)

Financial Performance
The following basic ratios measure the financial performance of the Bank:

	2023	2022	2021
Return on average equity	**11.72%**	10.21%	4.44%
Return on average assets	**1.80%**	1.40%	0.64%
Net interest margin on average earning assets	**5.18%**	4.66%	5.81%
Current ratio	**48.89%**	62.41%	65.57%
Debt-to-equity ratio	**4.94:1**	6.11:1	6.50:1
Asset-to-equity ratio	**5.94:1**	7.11:1	7.50:1
Interest rate coverage ratio	**1.84:1**	2.52:1	2.51:1

Capital Instruments Issued
The Bank considers common stock as capital instruments eligible as Tier 1 and Tier 2 capital as of December 31, 2023 and 2022.

Significant Credit Exposures as to Industry/Economic Sector
Loan concentration as to economic activity follows (gross of unearned discounts, modification loss and allowance for credit losses):

	2023	%	2022	%
Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use	**₱77,667,226,340**	**62.01%**	₱63,639,932,112	57.03%
Real estate activities	**36,589,283,371**	**29.21%**	37,408,126,369	33.52%
Wholesale and retail trade, repair of motor vehicles and motorcycles	**2,345,575,404**	**1.87%**	2,017,598,092	1.81%
Financial and insurance activities	**1,435,041,015**	**1.15%**	1,278,001,269	1.15%
Electricity, gas, steam and air-conditioning supply	**1,014,270,488**	**0.81%**	1,340,454,353	1.20%
Transportation and storage	**894,812,501**	**0.71%**	913,034,694	0.82%
Construction	**607,830,158**	**0.49%**	611,326,312	0.55%
Manufacturing	**564,461,629**	**0.45%**	567,888,302	0.51%
Administrative and support service activities	**313,279,519**	**0.25%**	329,226,111	0.30%

(Forward)

	2023	%	2022	%
Accommodation and food service activities	**₱194,468,882**	**0.16%**	₱189,313,909	0.17%
Professional, scientific and technical activities	**150,632,271**	**0.12%**	132,444,731	0.12%
Education	**130,242,629**	**0.10%**	118,663,386	0.11%
Information and communication	**95,851,435**	**0.08%**	75,489,198	0.07%
Human health and social work activities	**90,240,508**	**0.07%**	112,016,707	0.10%
Arts, entertainment and recreation	**78,518,459**	**0.06%**	72,203,103	0.06%
Agriculture, forestry and fishing	**75,789,773**	**0.06%**	70,896,310	0.06%
Water supply, sewerage, waste management and remediation activities	**65,529,418**	**0.05%**	43,296,906	0.04%
Mining and quarrying	**5,659,929**	**0.00%**	4,705,062	0.00%
Others	**2,883,292,726**	**2.30%**	2,663,873,735	2.39%
	₱125,202,006,455	**100.00%**	₱111,588,490,661	100.00%

Others relate to other service activities including the activities of membership organizations, repair of computers, personal and household goods and a variety of personal service activities not covered elsewhere in the classification above.

Breakdowns of Total Loans as to Security

The breakdown of loans and receivables from customers (gross of unearned discounts, modification loss and allowance for credit losses) as to secured and unsecured and as to type of security follows:

	2023	%	2022	%
Secured by:				
Chattel	**₱59,765,850,197**	**47.74%**	₱50,754,005,073	45.48%
Real estate	**30,985,023,151**	**24.75%**	30,172,737,600	27.04%
Deposit hold-out	**597,581,973**	**0.48%**	597,964,616	0.54%
	91,348,455,321	**72.96%**	81,524,707,289	73.06%
Unsecured	**33,853,551,134**	**27.04%**	30,063,783,372	26.94%
	₱125,202,006,455	**100.00%**	₱111,588,490,661	100.00%

Breakdown of Total Loans as to Status

Details of non-performing loans (NPL) follow:

	2023	2022
Secured	**₱3,240,010,197**	₱2,882,518,252
Unsecured	**1,157,125,833**	1,154,927,621
	₱4,397,136,030	₱4,037,445,873

Generally, NPLs 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, and/or;
4. 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:

1. 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.
2. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.
3. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

NOTES TO FINANCIAL STATEMENTS

The NPLs of the Bank not fully covered by allowance for credit losses follow:

	2023	2022
Total NPLs	**₱4,397,136,030**	₱4,037,445,873
Less NPLs fully covered by allowance for credit losses	**1,040,506,478**	977,859,235
	₱3,356,629,552	₱3,059,586,638

Restructured loans as of December 31, 2023 and 2022 amounted to ₱155.2 million and ₱98.8 million, respectively. The Bank's loan portfolio includes non-risk loans as defined under BSP regulations totaling ₱0.6 billion as of December 31, 2023 and 2022.

Information on Related Party Loans
As required under existing BSP rules and regulations, the Bank discloses loans and other credit accommodations granted to its DOSRI. These loans and other credit accommodations were made substantially on the same terms as with other individuals and businesses of comparable risks and were subject of prior BOD approval and entailing BSP reportorial requirements.

Existing banking regulations also limit the total amount of credit exposure to each of the Bank's DOSRIs, at least 70.00% of which must be secured, to the total of their respective deposits and book value of their respective unencumbered deposits and, if any, book value of their respective paid-in capital contribution in the Bank. In the aggregate, the Bank's total credit exposure to all its DOSRIs should not exceed its net worth or 15.00% of its total loan portfolio, whichever is lower, with any unsecured portion thereof not exceeding the lower between 30.00% of the aggregate limit or of the total actual exposure. However, loans and other credit accommodations to DOSRIs that are secured by assets considered by the BSP as non-risk are exempt from these ceilings. As of December 31, 2023 and 2022, the Bank's credit exposures to DOSRI are within the said regulatory limits.

BSP Circular No. 423 dated March 15, 2004, as amended by BSP Circular No. 914 dated June 23, 2016, provide the rules and regulations governing credit exposures to DOSRI. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to BSP Circular No. 423 and new DOSRI loans and other credit accommodations granted under said circular as of December 31, 2023 and 2022 (in thousands):

	2023		2022	
	DOSRI Loans	**Related Party Loans**	DOSRI Loans	Related Party Loans
Total outstanding loans	**₱191,082**	**₱1,146,082**	₱199,011	₱1,154,011
Percent of DOSRI/Related Party loans to total loan portfolio	**0.17%**	**1.03%**	0.18%	1.03%
Percent of unsecured DOSRI/Related Party loans to total DOSRI/Related Party loans	**98.35%**	**99.73%**	95.04%	99.15%
Percent of past-due DOSRI /Related Party loans to total DOSRI/Related Party loans	**0.00%**	**0.00%**	0.00%	0.00%
Percent of non-performing DOSRI/Related Party loans to total DOSRI /Related Party loans	**0.00%**	**0.00%**	0.00%	0.00%

Total interest income from DOSRI loans amounted to ₱3.9 million in 2023, ₱4.6 million in 2022 and ₱4.7 million 2021.

Aggregate Amount of Secured Liabilities and Assets Pledged as Security
As of December 31, 2023 and 2022, investment securities at amortized cost include Bureau of Treasury bonds pledged by the Bank to MBTC to secure its payroll account with the Bank, with total carrying value of ₱60.0 million and ₱60.1 million, respectively.

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

	2023	2022
Trust department accounts (Note 30)	**₱9,295,113,015**	₱8,825,860,829
Stand-by credit lines	**41,100,000**	122,000,000
Spot foreign exchange and contracts sale	**27,685,000**	27,877,500
Late deposits/payments received	**290,311**	3,288,413
Items held for safekeeping	**215,511**	240,348
Others	**57,244**	60,626

37. **Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010**

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002. The regulations provide that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Bank reported and/or paid the following types of taxes for the year:

Taxes and Licenses
For the taxable year ended December 31, 2023, taxes and licenses of the Bank consist of:

Gross receipts tax	₱976,158,644
Documentary stamps tax	605,573,537
Local taxes	82,799,112
Fringe benefit tax	7,995,688
	₱1,672,526,981

Withholding Taxes
As of December 31, 2023, total remittances and balance of withholding taxes are as follows:

	Total Remittances	Balance
Withholding taxes on compensation and benefits	₱439,968,847	₱22,494,515
Final withholding taxes	944,649,047	84,016,500
Expanded withholding taxes	100,015,580	10,261,114
	₱1,484,633,474	₱116,772,129

Tax Assessment
The Bank has no ongoing tax assessment as of December 31, 2023.

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