Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

UCPB SAVINGS BANK, INC.

For the years ended December 31, 2023 and 2022

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City
CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 1 – BANKING AND CREDIT

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
UCPB Savings Bank, Inc.
7th Floor Robinsons Cybergate Magnolia
Aurora Boulevard corner Doña Hemady St.
Kaunlaran, Quezon City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the **UCPB Savings Bank, Inc. (UCPBS)** which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, 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 UCPBS as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs), as modified by the application of the financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) and approved by the Securities and Exchange Commission (SEC), as described in Note 2(a) to the financial statements.

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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 UCPBS in accordance with the Revised Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (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.

Emphasis of Matter

We draw attention to Note 2(a) to the financial statements, which states that the financial statements have been prepared in accordance with the PFRSs, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC in response to the COVID19 pandemic. The impact of the application of the financial reporting reliefs on the financial statements as at December 31, 2023 and 2022 is discussed in detail in Note 2(a) to the financial statements. Our opinion is not modified in respect of this matter.

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, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC, as described in Note 2(a) to the financial statements, 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 UCPBS'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 UCPBS or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the UCPBS'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 ISSAIs 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 ISSAIs, 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 UCPBS's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the UCPBS'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 UCPBS 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 accordance with PFRSs, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC, as described in Note 2(a) to the financial statements.

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.

Report on Other Regulatory Requirements

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 the BSP Circular 1074 in Note 31 and the Revenue Regulations 15-2010 in Note 32 to the financial statements is presented for purposes of filing with the BSP and the Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, supplementary the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

MARIA LUZ G. VENTURA
OIC, Supervising Auditor

June 14, 2024

June 3, 2024

UCPB SAVINGS

7th Floor, Robinsons Cybergate Magnolia, Aurora Boulevard corner Hemady Street, Quezon City Philippines 1111

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of UCPB Savings Bank, Inc. (the Bank) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 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 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 to do so.

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

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

Commission on Audit has audited the financial statements of the Company in accordance with International Standards of Supreme Audit Institutions, and in their report to the stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.

LIDUVINO S. GERON
Chairman of the Board

LIZETTE MARGARET MARY J. RACELA
President and Chief Executive Officer

IRENE S. QUINTANA
Comptroller

UCPB Savings Bank, Inc.
(A subsidiary of Land Bank of the Philippines)
STATEMENTS OF FINANCIAL POSITION
December 31, 2023 and 2022
(Amounts in Philippine Peso)

	Note	2023	2022
ASSETS			
Cash and other cash items	10	904,068,361	652,251,247
Due from Bangko Sentral ng Pilipinas	10	971,902,862	1,523,681,596
Due from other banks	10	169,166,895	211,530,336
Securities Purchased under Resale Agreements	10	499,259,691	363,471,436
Financial assets at fair value through profit or loss	11.1	198,597,985	143,432,650
Financial assets at fair value through other comprehensive income	11.2	1,308,986,224	591,401,609
Financial assets at amortized cost, net	11.3	308,964,203	314,714,508
Loans and receivables, net	12	11,479,220,450	11,415,779,432
Bank premises, furniture, fixtures and equipment, and right of use asset, net	13	176,416,427	175,726,275
Investment properties, net	15	786,260,711	808,494,190
Assets held for sale, net	16	13,394,635	22,856,539
Intangible and other resources, net	17	121,446,226	155,557,184
Deferred tax assets, net	26	656,967,309	654,175,105
TOTAL ASSETS		**17,594,651,979**	**17,033,072,107**
LIABILITIES AND EQUITY			
Deposit liabilities	19	14,549,739,947	14,010,946,336
Accrued interest, taxes and other expenses	20	129,812,024	155,868,425
Income tax payable		2,842,346	1,404,395
Retirement liability	23.2	31,839,175	3,795,408
Other liabilities	21	433,624,258	438,358,080
TOTAL LIABILITIES		**15,147,857,750**	**14,610,372,644**
Capital stock		717,249,027	717,249,027
Additional paid-in capital		389,508,285	389,508,285
Revaluation reserves		(23,185,381)	(13,097,492)
Surplus reserves		11,400,803	14,162,692
Surplus		1,351,821,495	1,314,876,951
EQUITY	27	**2,446,794,229**	**2,422,699,463**
TOTAL LIABILITIES AND EQUITY		**17,594,651,979**	**17,033,072,107**

The Notes on pages 10 to 98 form part of these financial statements

UCPB Savings Bank, Inc.
(A subsidiary of Land Bank of the Philippines)
STATEMENTS OF INCOME
For the years ended December 31, 2023 and 2022
(Amounts in Philippine Peso)

	Note	2023	2022
INTEREST INCOME			
Loans and receivables	12	883,708,439	804,258,750
Trading and investment securities	11.4	73,567,347	66,109,945
Due from BSP and other banks	10	45,790,852	41,153,750
Securities purchased under resale agreements	10	25,756,522	10,421,291
		1,028,823,160	**921,943,736**
INTEREST EXPENSE			
Deposit liabilities	19	(217,323,344)	(127,671,449)
Interest expense - leases	14.3	(5,006,191)	(6,001,927)
		(222,329,535)	**(133,673,376)**
NET INTEREST INCOME		**806,493,625**	**788,270,360**
Impairment losses	18	(243,240)	(33,221,786)
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**806,250,385**	**755,048,574**
OTHER OPERATING INCOME			
Service fees		212,350,562	233,918,525
Gain/(Loss) on sale and foreclosure of assets - net	15,16	19,507,302	65,283,051
Trading and securities gains/(losses) - net	11.1	3,643,927	(5,269,891)
Miscellaneous	24	7,844,946	22,363,327
		243,346,737	**316,295,012**
OTHER OPERATING EXPENSES			
Salaries and employee benefits	23.1	(490,629,328)	(499,336,679)
Depreciation and amortization	13,15, 17	(105,560,435)	(145,449,900)
Taxes and licenses	32	(99,533,389)	(102,763,402)
Occupancy		(64,571,947)	(38,519,832)
Security, messengerial and janitorial		(53,017,841)	(44,706,249)
Insurance		(32,183,122)	(41,226,971)
Litigation	15	(14,872,058)	(33,839,679)
Transportation and travel		(10,635,942)	(12,005,064)
Management and other professional fees		(4,878,670)	(1,247,983)
Entertainment, amusement and recreation		(1,396,993)	(2,123,045)
Miscellaneous	25	(94,950,572)	(95,360,939)
		(972,230,297)	**(1,016,579,743)**
INCOME BEFORE TAX		**77,366,825**	**54,763,843**
Tax expense	26	(43,184,170)	(17,205,178)
NET INCOME		**34,182,655**	**37,558,665**

The Notes on pages 10 to 98 form part of these financial statements

UCPB Savings Bank, Inc.
(A subsidiary of Land Bank of the Philippines)
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2023 and 2022
(Amounts in Philippine Peso)

	Note	2023	2022
NET INCOME		**34,182,655**	**37,558,665**
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of post-employment defined benefit plan, net of tax	27.2	(21,032,825)	51,551,512
Net unrealized gain/(loss) on financial assets at fair value through other comprehensive income	11.2	10,944,936	(4,803,455)
		(10,087,889)	**46,748,057**
TOTAL COMPREHENSIVE INCOME		**24,094,766**	**84,306,722**

The Notes on pages 10 to 98 form part of these financial statements

UCPB Savings Bank, Inc.
(A subsidiary of Land Bank of the Philippines)
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2023 and 2022
(Amounts in Philippine Peso)

	Capital Stock (Note 27.1)	Additional paid-in capital (Note 27.1)	Revaluation Reserves (Note 27.2)	Surplus reserves (Note 27.3)	Surplus	TOTAL
Balance at January 1, 2023						
As previously reported	**717,249,027**	**389,508,285**	**(13,097,492)**	**14,162,692**	**1,314,876,951**	**2,422,699,463**
Appropriation during the year				(2,761,889)	2,761,889	0
Other comprehensive loss			(10,087,889)			(10,087,889)
Net income for the year					34,182,655	34,182,655
Balance at December 31, 2023	**717,249,027**	**389,508,285**	**(23,185,381)**	**11,400,803**	**1,351,821,495**	**2,446,794,229**
Balance at January 1, 2022						
As previously reported	**717,249,027**	**389,508,285**	**(59,845,549)**	**5,714,392**	**1,301,602,895**	**2,354,229,050**
Appropriation during the year				8,448,300	(8,448,300)	0
Effect of COA Circular 2022-004					(15,836,309)	(15,836,309)
Other comprehensive income			46,748,057			46,748,057
Net income for the year					37,558,665	37,558,665
Balance at December 31, 2022	**717,249,027**	**389,508,285**	**(13,097,492)**	**14,162,692**	**1,314,876,951**	**2,422,699,463**

The Notes on pages 10 to 98 form part of these financial statements

UCPB Savings Bank, Inc.
(A subsidiary of Land Bank of the Philippines)
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2023 and 2022
(Amounts in Philippine Peso)

	Note	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		1,042,955,502	942,656,372
Interest paid		(206,714,406)	(130,537,706)
Fees and commission received		212,350,562	233,918,525
Gain on financial assets and liabilities-FVPL	11.1	237,422	1,981,443.00
Miscellaneous Income		4,585,339	11,605,126
General and administrative expenses		(866,669,862)	(871,129,843)
Operating income before changes in operating assets and liabilities		186,744,557	188,493,917
Changes in operating assets and liabilities			
(Increase)/Decrease in operating assets and liabilities			
FA-Fair value through profit or loss		(51,758,831)	448,686,885
FA-Fair value through other comprehensive income		(706,639,679)	(596,205,064)
FA-Amortized Cost		5,750,305	(303,814,508)
Loans and receivable		(51,993,413)	(364,275,474)
Other Assets		29,810,044	82,063,663
Increase/(Decrease) in operating assets and liabilities			
Deposit Liabilities		523,178,482	(1,619,155,769)
Accrued taxes, interest and other expenses		(26,056,401)	80,265,813
Other Liabilities		4,467,100	(2,115,549)
Net cash used from operating activities		**(86,497,836)**	**(2,086,056,086)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	13	(65,449,950)	(17,936,834)
Disposal of property and equipment		252,229	1,448,609
Addition to intangible and other assets	17	(16,700,362)	(19,004,426)
Net cash used in investing activities		**(81,898,083)**	**(35,492,651)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease liabilities	14.3	(38,140,887)	(57,011,284)
Net cash used in financing activities		**(38,140,887)**	**(57,011,284)**
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(206,536,806)**	**(2,178,560,021)**
CASH AND CASH EQUIVALENTS AT JANUARY 1		**2,750,934,615**	**4,929,494,636**
CASH AND CASH EQUIVALENTS AT DECEMBER 31	**10**	**2,544,397,809**	**2,750,934,615**

The Notes on pages 10 to 98 form part of these financial statements

UCPB SAVINGS BANK, INC.
(*A Subsidiary of Land Bank of the Philippines*)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

1. GENERAL INFORMATION

UCPB Savings Bank, Inc. (UCPBS or the Bank) is a domestic thrift bank incorporated in the Philippines on October 18, 1962, to provide services such as deposit-taking, loans, domestic fund transfers and treasury. The Bank is a 97.55 per cent owned subsidiary of Land Bank of the Philippines (LBP or the parent bank). The parent bank is a financial institution wholly-owned by the National Government.

On March 25, 2010, the Board of Directors (BOD) and stockholders of the Bank approved its amended Articles of Incorporation to extend the corporate term of the Bank, which expired on October 18, 2012, for another 50 years. On January 25, 2012, the Philippine Securities and Exchange Commission (SEC) approved such amendment.

On November 05, 2020, the Bank received a letter from the Governance Commission for Government Owned or Controlled Corporations (GCG) saying that UCPB Savings Bank Inc., is a Government Owned or Controlled Corporation (GOCC)/Government Financial Institution (GFI) and is now covered by Republic Act (R.A.) No. 10149.

Under Section 3 of R.A. No. 10149, otherwise known as the GOCC Governance Act of 2011, a government-owned or-controlled corporation is defined as:

(o) Government-Owned or -Controlled Corporation (GOCC) refers to any agency organized as a stock or nonstock corporation, vested with functions relating to public needs whether governmental or proprietary in nature, and **owned by the Government of the Republic of the Philippines** directly or through its instrumentalities either wholly or, where applicable as in the case of stock corporations**, to the extent of at least a majority of its outstanding capital stock**: Provided, however, That for purposes of this Act, the term "GOCC"- shall include GICP/GCE and GFI as defined herein. (*Emphasis supplied*)

Further, under the same section, a government financial institution (GFI) is defined as:

(m) Government Financial Institutions (GFIs) refer to financial institutions or corporations in which **the government directly or indirectly owns majority of the capital stock** and which are either: (1) registered with or directly supervised by the Bangko Sentral ng Pilipinas; or (2) collecting or transacting funds or contributions from the public and places them in financial instruments *or* assets such as deposits, loans, bonds and equity including, but not limited to, the Government Service Insurance System and the Social Security System. *(Emphasis Supplied)*

UCPB Savings Bank, Inc. is an incorporated domestic thrift bank which provides deposit-taking, loans, domestic fund transfers, and treasury services. The Bank is under the supervision of the Bangko Sentral ng Pilipinas, categorized as a thrift bank. On the basis of the above definitions**, thus, UCPB Savings Bank, Inc. is a GFI**.

On June 25, 2021, Executive Order No. 142, s2021 titled "Approving the Merger of Land Bank of the Philippines (LBP) and the United Coconut Planters Bank (UCPB), and the acquisition by the LBP of the Special Preferred Shares of the Philippine Deposit Insurance Corporation (PDIC) in the UCPB" was signed by the President of the Republic of the Philippines, whereby the latter bank shall emerge as the surviving entity, subject to the requisite approvals from the Securities and Exchange Commission, and to the conditions and limitations under Republic Act Nos. 11524 and 11232 or the Revised Corporation Code of the Philippines.

UCPB shareholders approved the merger plan with LBP during its stockholders' meeting on December 14, 2021. The shareholders representing 97.2 per cent of the UCPB's total outstanding capital stock voted in favor of the Plan of Merger and Articles of Merger between UCPB and LBP.

With the merger of UCPB and LBP on March 01, 2022, a more unified, stronger, and more resilient institution has merged. UCPBS now a subsidiary of LBP, continues to operate on a stand-alone basis and its services will continue to be unhampered and uninterrupted, still true to its vision to be the Bank of choice in the communities it serves.

The officers and staff of UCPBS remained committed to serving the nation and delivering that brand of service that it is known for, "Kasama Mo".

As of December 31, 2023, the Bank operates 49 branches with 10 branch lite offices and 4 lending offices.

The Bank's registered office and principal place of business is located at 2nd and 3rd Floors, Overseas Filipino Bank (OFB) Center, Liwasang Bonifacio, Barangay 659-A, Ermita, City of Manila as of December 31, 2023. On February 16, 2024, the Bank transferred to its present location at 7th Floor, Robinsons Cybergate Magnolia, Aurora Boulevard corner Doña Hemady Street, Kaunlaran, Quezon City.

The registered office of the parent bank, which is also its principal place of business, is located at LANDBANK Plaza, 1598 M.H. Del Pilar corner Dr. J. Quintos Streets, Malate, Manila.

2. STATEMENT OF COMPLIANCE WITH PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRSs)

(a) Statement of Compliance with Philippine Financial Reporting Standards

The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs), as modified by the application of the following financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) Memorandum M-2020-08 Regulatory Relief for BSFIs Affected by Corona Virus Disease 2019 (COVID-19), dated March 14, 2020, and approved by the SEC in Memorandum

Circular No. 32-2020 issued on November 17, 2020 in response to the COVID-19 pandemic.

Pursuant to the BSP M-2020-08, the Bank availed the financial reporting relief for the staggered booking of some of its Allowance for Credit Losses (ACL). The Request for BSP relief was initially applied on February 28, 2021 and resubmitted to the BSP on April 7, 2021 due to other requirements of the BSP.

The BSP approved the request on the staggered booking of the company's ACL over a maximum period of five years on May 6, 2021 as per letter dated May 24, 2021.

As of December 31, 2023, the remaining ACL balance for staggered booking is P217.85 million. BSP approved staggered booking is shown below:

	Allowance for Credit Losses (ACL) for staggered booking	**Deferred Tax Asset related to recognized allowance**	**Net Effect on Retained Earnings**
Year 2021	615,344,658	153,836,165	461,508,493
Year 2022	435,705,565	108,926,391	326,779,174
Year 2023	326,779,174	81,694,794	245,084,380
Year 2024	217,852,783	54,463,196	163,389,587
Year 2025	108,926,391	27,231,598	81,694,793

Except for the modification described above, the financial statements have been prepared using the measurement bases specified by PFRSs for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2023 (including the comparative financial statements as of and for the year ended December 31, 2022) were approved and authorized for issue by the Bank on June 14, 2024.

3. NEW OR REVISED STANDARDS

(a) Effective in 2023 that are Relevant to the Company

The following are the PFRS interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2023:

(i) PAS 1 (Amendments), Presentation of Financial Statements – *Disclosure of Accounting Policies* (effective January 1, 2023). The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. It is expected that the amendments will have no material effect on the Bank's financial statements.

(ii) PAS 8 (Amendments), Accounting Estimates – *Definition of Accounting Estimates* (January 1, 2023). The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". It is expected that the amendments will have no material effect on the Bank's financial statements.

(iii) PAS 12 (Amendments), Income Taxes – *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (January 1, 2023). The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. It is expected that the amendments will have no material effect on the Bank's financial statements.

(b) Effective beginning on or after January 1, 2024

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 to have a significant impact on its consolidated financial statements. The Bank intends to adopt the following pronouncements when they become effective.

(i) PFRS 16 (Amendments), Leases – *Lease Liability in a Sale and Leaseback* (effective January 1, 2024). These amendments include requirements for sale and leaseback transactions in PFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. The amendments do not change the accounting for leases unrelated to leaseback transactions.

(ii) PAS 1 (Amendments), Presentation of Financial Statements – *Non-current liabilities with covenants* (effective January 1, 2024). These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.

4. MATERIAL ACCOUNTING POLICIES

4.1 Basis of Preparation of Financial Statements

The financial statements have been prepared using the measurement bases specified by PFRSs for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

4.2 Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents the statement of comprehensive income separate from the statement of income.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are required to be disclosed.

4.3 Functional and Presentation Currency

The accompanying financial statements are presented in Philippine pesos, which is the functional and presentation currency of the Bank. All values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates.

4.4 Financial Instrument

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the financial instrument. For purposes of classifying financial instrument, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria under PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Deposits, amounts due to banks and customers, and loans are recognized when cash is received by the Bank or advanced to the borrowers.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at Fair Value Through Profit or Loss (FVTPL), transaction costs such as fees and commissions that are incremental or directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

a) Classification, Measurement and Reclassification of Financial Assets

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets applicable to the Bank are described in the succeeding pages.

(i) Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect" or "HTC"); and

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

The financial asset held within the business model of "Amortized Cost" or "Held-to Collect" is achieved by collecting contractual payments over the life of the instrument. These assets are initially measured at fair value plus any transaction cost. These are subsequently measured at amortized cost, using the effective interest method, less any allowance for Expected Credit Losses (ECL). Measurement at amortized cost involves reflecting the instrument at its acquisition value plus any unpaid amortized income.

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

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Receivables and Financial Assets at Amortized Cost.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2023 and 2022 the Bank has not made such designation.

(ii) Financial Asset at Fair Value Through Other Comprehensive Income

The Bank accounts for financial assets at Fair Value Through Other Comprehensive Income (FVOCI) if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and

- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves account is not reclassified to profit or loss but is reclassified directly to Surplus account, except for those debt securities classified as FVOCI wherein cumulative fair value gains or losses are recycled to profit or loss.

Any dividends earned on holding equity instruments are recognized in profit or loss as part of Miscellaneous under Other Operating Income account, when the Bank's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Bank, and the amount of the dividend can be reliably measured, unless the dividends clearly represent recovery of a part of the cost of the investment.

(iii) Financial Assets at Fair Value Through Profit or Loss

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Bank designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Bank's financial assets at FVTPL include government debt securities which are held for trading purposes or designated as at FVTPL.

Financial assets at FVTPL are measured at fair value with gains or losses recognized as part of Trading and securities gain (losses) under Other Operating Income (Expense) in the statement of income. Related transaction costs are recognized directly as expense in profit or loss. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

Interest earned on these investments is reported in the statement of income under Interest Income account.

b) Recognition of Interest Income Using Effective Interest Rate Method

Interest income on financial assets measured at amortized cost and all interest-bearing debt financial assets classified as at FVTPL, or at FVOCI, is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The effective interest rate is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of effective interest rate. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the instrument; hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset with an increase or reduction in interest income.

The Bank calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, the calculation of interest income reverts to gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset subsequently improves.

(c) Reclassification of Financial Assets

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristics of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Bank's business model will take effect only at the beginning of the reporting period following the change in the business model.

(d) Impairment of Financial Assets under PFRS 9

The Bank assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost, debt instruments measured at FVOCI and other contingent accounts such as financial guarantees and loan commitments. No impairment loss is recognized on equity investments. Recognition of credit losses or impairment is no longer dependent on the identification of a credit loss event. Instead, the Bank considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The bank measures loss allowances at an amount equal to lifetime ECL, except for the following financial instrument for which they are measured at 12- months ECL.

- All current loan accounts, except restructured loan,

- The debt securities that are identified to have “low credit risk” at the reporting date; and,

- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for impairment is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as “Stage 1” financial instrument). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial assets, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as ‘Stage 2” financial instruments). Stage 2 financial instruments also include those loan accounts and facilities where the credit risk has improved and have and have been reclassified from “Stage 3”. A lifetime ECL shall be recognized for Stage 3 financial instruments, which include financial instruments that are subsequently credit impaired, as well as purchased or originated credit impaired assets.

The Bank’s definition of credit risk and information on how risk is mitigated by the bank are disclosed in Note 6.2.

The key elements used in the calculation of ECL are as follows:

- *Probability of default (PD) - It is an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon.*

- *Loss given default (LGD) - It is an estimate of loss arising in case a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Bank would expect to receive, including the realization of any collateral.*

- *Exposure at default (EAD) - It represents the gross carrying amount of the financial instruments subject to the impairment calculation. In case of financial guarantee and loan commitment, the Bank shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.*

The Bank measures the ECL of a financial asset in such manner that reflects: (i) the time value of money; and, (ii) reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that affect the collectability of the future cash flows of the financial assets.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Bank’s detailed ECL measurement as determined by the management is disclosed in Note 6.2 and 18.

(e) Financial Liabilities at Amortized Cost

Financial liabilities, which include deposit liabilities, accrued interest and other expenses, and other liabilities (except retirement benefit liability and other taxes payable), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in the statement of income as part of Interest Expense.

Deposit liabilities, accrued interest and other expenses, and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Bank's BOD.

(f) Derecognition of Financial Assets

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party.

If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(i) Modification of Loans

When the Bank renegotiates or otherwise modifies the contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;

- Whether any substantial new terms are introduced that will affect the risk profile of the loan;

- Significant extension of the loan term when the borrower is not in financial difficulty;

- Significant change in the interest rate;

- Change in the currency the loan is denominated in; and/or,

- Insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a "new" asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are recognized in the statement of income as either gain or loss on derecognition of financial assets.

As to the impact on ECL measurement, the expected fair value of the "new" asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in the statement of income.

The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(ii) Derecognition of Financial Assets Other than Through Modification

Financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(g) Derecognition of Financial Liabilities

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized as gain or loss in the statement of income.

(h) Financial Guarantees and Undrawn Loan Commitment

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 or 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 reflected 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 irrevocable undrawn loan commitments that will be drawn over their expected life based on the Bank's historical observations of actual drawdowns and forward-looking forecasts. The ECL related to financial guarantees and loan commitments without outstanding drawn amounts is recognized under Other Liabilities account in the statement of financial position. As of December 31, 2023 and 2022, the Bank has no outstanding financial guarantees and loan commitments.

4.5 Bank Premises, Furniture, Fixtures and Equipment

Depreciable properties, including buildings and improvements, furniture, fixtures and equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization, and any impairment in value. Land is carried at cost less any impairment in value.

The initial cost of bank premises, furniture, fixtures and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the bank premises, furniture, fixtures and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period 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 an item of bank premises, furniture, fixtures and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of bank premises, furniture, fixtures and equipment.

Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the depreciable assets. Leasehold improvements are amortized over the shorter of the term covering the leases and the estimated useful lives of the improvements. The estimated useful lives of the depreciable assets are as follows:

Building and Building Improvements	20 years
Furniture, Fixtures and Equipment	3 to 5 years

The useful life and depreciation and amortization methods are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment. The carrying amounts of bank premises, furniture, fixtures and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable. If any such indication exists and where the carrying amounts exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 4.9 and 13).

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each end of reporting period.

An item of bank premises, furniture, fixtures 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 statements of income in the year the asset is derecognized.

4.6 Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is initially measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under Investment properties from foreclosure date. Gain or loss from foreclosure is included as part of Gain on sale and foreclosure of assets account under Other Operating Income section of the statement of income.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and amortization and impairment (see Note 15).

Depreciation is computed using the straight-line method over their respective useful life ranging from five to 30 years. Land is carried at cost less any impairment in value (see Note 4.9 and 15).

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 as part of Gain on sale and foreclosure of assets account under Other Operating Income section of the statement of income in the year of retirement or disposal. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against income in the period in which costs are incurred.

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.

4.7 Assets Held-for-Sale

Assets held-for-sale include real and other properties (i.e., motorcycles and other vehicles) acquired through repossession or foreclosure that the Bank intends to sell within one year from the date of classification as held-for-sale and is committed to immediately dispose the assets through an active marketing program.

The Bank classifies an asset as held-for-sale if the carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

Assets held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale, and their fair value less costs to sell. The Bank recognizes impairment loss for any initial or subsequent write-down of the asset at fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held for sale are not subject to depreciation.

If the Bank has classified an asset as held-for-sale, but the criteria for it to be recognized as held-for-sale are no longer satisfied, the Bank ceases to classify the asset as held-for sale. The gain or loss arising from the sale or remeasurement of assets held-for-sale is recognized as part of Gain on sale and foreclosure of assets account under Other Operating Income section of the statement of income.

4.8 Intangible Assets and Other Resources

Intangible assets consist of acquired software costs that are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis over the estimated useful lives (ranging from three to 10 years). Intangible assets are subject to impairment testing as described in Note 4.9.

Cost associated with maintaining the computer software programs are recognized as expense when incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in the statement of income.

Other resources pertain to other resources controlled by the Bank as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

4.9 Impairment of Non-financial Assets

At each reporting date, the Bank assesses whether there is any indication that its bank premises, furniture, fixtures and equipment, investment properties, assets held-for-sale, intangible assets and other 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.

Recoverable amount is the higher of a non-financial asset's fair value less cost to sell and its value in use, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case the recoverable amount is assessed as a part of the cash-generating unit to which it belongs. Where the carrying amount of an asset 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 pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is charged to profit and loss in the year in which it arises. For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that such assets are impaired or whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognized.

If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation and amortization 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.

4.10 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plans, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies.

The Bank's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The asset or liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interpolated yields of government bonds as calculated by Bloomberg which used BVAL Evaluated Pricing Service to calculate the PHP BVAL. These yields are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Salaries and Employee Benefits account under Other Operating Expenses section of the statement of income.

Past service costs are recognized immediately in the statement of income in the period of a plan amendment and curtailment.

(b) Post-employment Defined Contribution Plans

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity. The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred.

(c) Short-term Benefits

Short-term employee benefits include wages, salaries, bonuses, and non-monetary benefits provided to current employees, which are expected to be settled before 12 months after the end of the reporting period during which an employee services are rendered, but does not include termination benefits. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in the statement of income during that period and any unsettled amount at the end of the reporting period is included as part of Accrued Taxes, Interests, and Other Expenses in the statement of financial position.

(d) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(e) Bonus Plans

The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(f) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

4.11 **Borrowing Cost**

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset.

The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

4.12 **Leases**

The Bank considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;

- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Bank amortize the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist.

On the other hand, the Bank measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in the statement of income on a straight-line basis over the lease term.

4.13 Provision and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

4.14 Related party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and, (d) the Bank’s funded retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

4.15 Income Taxes

Tax expense recognized in the statement of income comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the statement of income.

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

4.16 Revenue and Expense Recognition

Revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may partially be within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in the statement of income upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in the statement of income on accrual basis.

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.

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

(a) Revenues within the scope of PFRS 15

(i) Service charges and penalties

Service charges and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

(ii) Fees and commissions

- *Fee income earned from services that are provided over time*

Fees earned for the provision of services over a period of time are accrued over that period as the customer simultaneously receives and consumes the benefits provided by the Bank. Using an output method, revenue is recognized if the Bank has a right to invoice the customer for services directly corresponding to performance completed to date. These fees include service fees and commission income.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(iii) Other Income

Income from the sale of services is recognized upon completion of service. Income from sale of properties is recognized upon completion of earnings process and the collectability of the sale prices is reasonably assured.

(b) Revenues outside the scope of PFRS 15

(i) Interest Income

Interest on interest-bearing financial assets at FVTPL are recognized based on the contractual rate. Interest on financial instruments is recognized based on the EIR method of accounting (see Note 4.4).

(ii) 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.

(iii) *Dividend Income*

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

(iv) *Trading and securities gain (loss) - net*

Results arising from trading activities include all gains and losses from changes in fair value for Financial assets at FVTPL and gains and losses from disposal of Financial assets at amortized cost.

(v) *Rental Income*

Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases.

Costs and expenses are recognized in the statement of income upon utilization of the resources and/or services or at the date they are incurred. All finance costs are reported on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any (see Note 4.11).

4.17 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Revaluation reserves consist of:

(a) Remeasurements of post-employment defined benefit plan comprising of net accumulated actuarial gains or losses arising from experience adjustments and other changes in actuarial assumptions and actual return on plan assets (excluding amounts included in net interest); and,

(b) Unrealized gains and losses due to the revaluation of financial assets at FVOCI.

Surplus reserves pertain to the following:

(a) Amounts set aside to cover losses due to fire, defalcation by and other unlawful acts of the Bank's personnel or third parties.

(b) Accumulated amount set aside for possible or unforeseen losses, decrease of shrinkage in the book value of the Bank's assets or for undeterminable liabilities not otherwise recorded such as those arising from lawsuits, defaults on obligations and unexpected differences.

(c) General loan loss reserve which pertains to the accumulated amount of appropriation from Surplus made by the Bank arising from the excess of the one-percent

general loan loss provisions for outstanding loans as required by the BSP under Circular No. 1011, *Guidelines on the Adoption of PFRS 9* over the computed allowance for ECL for Stage 1 financial instruments.

Surplus includes all current and prior period results of operations as reported in the statement of income and which are available and not restricted for use by the Bank, reduced by the amounts of dividends declared, if any.

4.18 Events After the End of the Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRSs requires the management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates 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. Actual results may ultimately vary from these estimates. Unless specifically indicated to apply to either year, the policies that follow apply to both years.

5.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Determination of Lease Term of Contracts with Renewal and Termination Options

In determining the lease term, the Bank considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

For leases of warehouses and offices, the factors that are normally the most relevant are (a) if there are significant penalties should the bank pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Bank is reasonably certain to extend and not to terminate the lease contract. Otherwise, the bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset. The Bank included the renewal period as part of the lease term for leases of warehouses and offices due to the significance of these assets to its operations. These leases have a short, noncancellable lease period (i.e., one to four years) and there will be a significant negative effect on production if a replacement is not readily available. The lease term is reassessed if an option is actually exercised or not exercised or the Bank becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

(b) Evaluation of Business Model Applied in Managing Financial Instruments

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers.

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 shall be 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). In determining the classification of a 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 (e.g., generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment and lending strategies.

(c) Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model

In determining the classification of financial assets, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

If more than an infrequent 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 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 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.

(d) Distinction Between Investment Properties and Owned-Managed Properties

The Bank determines whether a property qualifies as investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-managed properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

(e) Classification and Determination of Fair Value of Acquired Properties

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets Held-for-Sale if the Bank expects that the properties will be recovered principally through sale rather than continuing use of the asset, as Investment Properties if currently held for undetermined future use and is regarded as held for capital appreciation.

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 4.13 and disclosures on relevant provisions and contingencies are presented in Note 18.

5.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) Determination of Appropriate Discount Rate in Measuring Lease Liabilities

The Bank measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate (IBR). The Bank estimates the IBR using observable inputs (such as market interest rate) when available. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) Estimation of Allowance of ECL

When measuring allowance for ECL for relevant categories of financial assets, management applies judgment in defining the criteria in assessing whether a financial asset has experienced significant increase in credit risk (SICR) since initial recognition, and in the estimation of the contractual cash flows due from counterparty and those that the Bank would expect to receive, taking into account the cash flows from the realization of collateral and integral credit enhancements. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions about future economic conditions and credit behavior of counterparties (e.g., the likelihood of counterparties defaulting and the resulting losses). The computation of the ECL also consider the use of reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other that may result in different levels of loss allowance.

Significant factors affecting the estimates on the ECL model include:

- internal rating matrix which determines the PD to be assigned to a financial asset;

- criteria for assessing if there has been a significant increase in credit risk and when a financial asset will be transferred between the three stages;

- the Bank's definition of default for different segments of credit exposures that considers the regulatory requirements;

- establishing groups of similar financial assets (i.e., segmentation) for the purposes of measuring ECL on a collective basis;

- establishment of LGD parameters based on historical recovery rates of claims against defaulted counterparties across different group of financial instruments; and,

- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

(c) Determination of Fair Value Measurement for Financial Assets at FVTPL and FVOCI

The Bank carries certain financial assets at fair value which requires judgment and extensive use of accounting estimates and judgements. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument or other more appropriated valuation techniques (see Note 11).

The amount of changes in fair value of financial assets and financial liabilities would affect the statement of income or other comprehensive income.

The fair value of financial assets measured at fair value are grouped in fair value hierarchy disclosed in Note 9.1. Further, the carrying values of the Bank's financial assets at FVTPL and FVOCI financial assets and the amounts of fair value changes recognized on those assets are disclosed in Notes 11.1 and 11.2, respectively.

(d) Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties, Right -of-use Assets and Intangible Assets

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, investment properties, right-of-use assets and intangible assets based on the period over which the assets are expected to be available for use.

The estimated useful lives of bank premises, furniture, fixtures and equipment, investment properties, right-of-use assets and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of bank premises, furniture, fixtures, equipment, and right-of-use, investment properties and intangible assets are analyzed in Notes 13, 15 and 17, respectively. Based on management's assessment as at December 31, 2023 and 2022, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Fair Value Measurement of Investment Properties and Assets Held-for-Sale

The Bank's investment properties which consist of parcels of land and buildings, and improvements which are held for capital appreciation or held under operating lease agreements, and assets held-for-sale are measured using the cost model. The estimated fair values of investment properties and assets held-for-sale as disclosed in Notes 15 and 17, respectively, is determined on the basis of appraisals conducted by qualified internal and independent professional appraisers applying the relevant valuation methodologies as discussed therein.

For investment properties and assets held-for-sale with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair values of those properties. As of December 31, 2023 and 2022, there were no circumstances that management has determined possible adjustments in the fair values of the investment properties and assets held-for-sale.

A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in an adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(f) Determination of Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Management assessed that the deferred tax assets recognized as at December 31, 2023 and 2022 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 26.

(g) Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized on the Bank's non-financial assets are disclosed in Note 18.

(h) Valuation of Post-Employment Defined Benefits

The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and expected rate of salary increase. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 23.2.

6. RISK MANAGEMENT POLICIES AND OBJECTIVES

The Bank has exposure to the following risk from its use of financial instrument.

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

The Bank is cognizant of the need to address various other risks such as operations risk, technology risk, strategic/business risk, compliance risk and legal risk.

6.1 Risk Management

Overall, the Bank's BOD is responsible for approving the Bank's risk governance framework and overseeing its implementation by management. Relative to this, BOD is responsible for defining the Bank's risk appetite and organizational responsibilities following the three lines of defense framework; approve and oversee the Bank's adherence to the risk appetite statement expressed in limits and policies/procedures relating to the management of risks throughout the Bank.

The risk management framework adopted by the Bank consists of the following processes:

- Risk identification
- Risk measurement
- Risk control
- Risk monitoring

The above processes are performed coherently and collaboratively at three levels, namely:

- Strategic level – where the BOD and, senior management set mission and vision, define the risk philosophy, define strategic plans and revenue goals.

- Transaction level – where the Risk-Taking Personnel (RTP), Front and Back-Office personnel determine opportunities and take risks. The risk-taking activities at this level shall be congruent to the goals, strategies and risk philosophy set by the policy making body.

- Portfolio level – where the portfolio/position risks are captured and evaluated by independent third party, other than the RTP [i.e., Risk Management Division (RMD), Internal Audit Division and Compliance Division].

The Risk Oversight Committee, (ROC), a board-level committee created by the BOD, advise the BOD on the overall current and future risk appetite of the Bank, oversee senior management's adherence to the risk appetite statement, report on the state of risk culture and oversee the risk management function of the Bank through the RMD.

RMD, which is independent of the business units, and is directly reporting to the ROC, performs daily market risk analyses to measure market risk exposures, monitors credit risk exposures and portfolio movements, and monitors compliance with the Bank's policies, procedures and limits. RMD also takes the lead in the development of the Bank's internal limits structure, risk classification and profiling through the internal credit risk rating system.

6.2 Credit Risk

Credit risk arises from a counterparty's failure to meet the terms of any contract with the Bank or otherwise perform as agreed. It arises any time the Bank's funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off books. Credit risk is not limited to the loan portfolio.

(a) Management of Credit Risk

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and the Executive Committee while that of the individual borrowers is performed by the business units. Risk management is embedded in the entire credit process, i.e. from credit origination to remedial management (if needed). Among the tools used by the Bank in managing credit risk include the following:

- Credit policies and procedures;
- Approving authorities;
- Internal credit rating for corporate loans subject to individual assessment;
- Review of the sufficiency of valuation reserves;
- Monitoring the adequacy of capital for credit risk via the capital adequacy ratio;
- Monitoring of breaches in regulatory limits;
- Credit scoring for auto loans; and
- Credit risk management dashboard to identify the following:
    - portfolio growth;
    - loss rate;
    - movements in non-performing loans (NPL); and,
    - movement in foreclosed assets.

(b) Credit Risk at Initial Recognition

The Bank uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

(c) Modification

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, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges.

(d) Concentration of Risks of Financial Assets with Credit Risk Exposures

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The Bank manages risk concentration via monthly monitoring and reporting to the ROC and BOD of the following:

- Exposure to each loan product in terms of amount, percentage to total loan portfolio, and past due and NPL amounts and ratios;
- Ratio of secured to unsecured loans;
- Large exposures or accounts equal or greater than five per cent of the qualifying capital; and
- Top 20 borrowers.

The Bank monitors concentration of credit risk by industry of counterparty. An analysis of concentration risk (at net amount) at the reporting date is presented below:

	December 31, 2023			
	Loans and Receivables	**Loans and Advances to Banks (a)**	**Trading and Investment Securities (b)**	**Total**
Real estate	3,971,032,696	0	0	3,971,032,696
Financial intermediaries	755,550,445	971,902,862	0	1,727,453,307
Philippine government	0	668,426,586	1,816,598,412	2,485,024,998
Others community, social and personal services	8,715,651,356	0	0	8,715,651,356
	13,442,234,497	1,640,329,448	1,816,598,412	16,899,162,357
Less allowance for credit and impairment losses	1,963,014,047	0	50,000	1,963,064,047
	11,479,220,450	**1,640,329,448**	**1,816,548,412**	**14,936,098,310**

	December 31, 2022			
	Loans and Receivables	**Loans and Advances to Banks (a)**	**Trading and Investment Securities (b)**	**Total**
Real estate	4,113,415,091	0	0	4,113,415,091
Financial intermediaries	589,167,444	211,530,336	0	800,697,780
Philippine government	0	1,887,153,032	1,049,648,767	2,936,801,799
Others community, social and personal services	8,721,216,212	0	0	8,721,216,212
	13,423,798,747	2,098,683,368	1,049,648,767	16,572,130,882
Less allowance for credit and impairment losses	2,008,019,315	0	100,000	2,008,119,315
	11,415,779,432	**2,098,683,368**	**1,049,548,767**	**14,564,011,567**

a. Comprised of Due from BSP, Due from Other Banks and SPURA.
b. Comprised of Financial Assets at FVTPL, FVOCI, Financial Assets at Amortized Cost.

(e) Excessive Risk Concentration

Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics and are affected similarly by changes in economic or other conditions. The Bank analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, product, and security.

To monitor risk concentration, RMD reports monthly to the ROC trends in loan portfolio and past due (both performing and non-performing) and compliance with internal limits.

(f) Maximum Exposure to Credit Risk

The Bank's maximum exposure to credit risk is equal to the carrying value of its financial assets except for certain secured loans and discounts shown below:

	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
December 31, 2023				
Loans and discounts				
Corporate	5,239,952,732	4,437,908,593	802,044,139	4,437,908,593
Consumption	4,455,308,897	0	4,455,308,897	0
Real estate	3,049,069,093	5,511,510,592	(2,462,441,499)	3,049,069,093
Others	84,310,534	71,654,669	12,655,865	71,654,669
	12,828,641,256	**10,021,073,854**	**2,807,567,402**	**7,558,632,355**

	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
December 31, 2022				
Loans and discounts				
Corporate	5,096,545,657	3,649,417,696	1,447,127,961	3,649,417,696
Consumption	4,151,386,335	0	4,151,386,335	0
Real estate	3,142,296,561	5,496,849,500	(2,354,552,939)	3,142,296,561
Others	447,446,935	96,169,367	351,277,568	96,169,367
	12,837,675,488	**9,242,436,563**	**3,595,238,925**	**6,887,883,624**

The following table shows the description of credit quality of corporate accounts:

Credit Quality	ICRR System Grade	Description
High grade	1	Excellent
	2	Strong
Standard grade	3	Good
	4	Satisfactory
	5	Acceptable
	6	Watchlist

Credit Quality	ICRR System Grade	Description
Substandard grade	7	Especially mentioned
	8	Substandard
Impaired	9	Doubtful
	10	Loss

Excellent

This rating is given to a borrower with a very low probability of going into default in the coming year. The borrower has a high degree of stability, substance and diversity and has access to public markets to raise substantial amount of funds at any time; has a very strong debt service capacity and has conservative balance sheet leverage. The track record of the borrower in terms of profit is very good and exhibits highest quality under virtually all economic conditions.

Strong

This rating is given to borrowers with a low probability of going into default in the coming year. The borrower normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, the borrower has good access to public markets to raise funds. Borrower has a strong market and financial position with a history of successful performance. Overall debt service capacity is deemed very strong; critical balance sheet ratios are conservative.

Good

This rating is given to smaller corporations with limited access to public capital markets or to alternative financial markets. Probability of default is quite low and it bears some degree of stability and substance. However, borrower may be susceptible to cyclical changes and more concentration of business risk, by product or by market. Typical of this type of borrower is the combination of comfortable asset protection and an acceptable balance sheet structure.

Satisfactory

This rating is given to a borrower where clear risk elements exist, the probability of default is somewhat and normally has limited access to public markets. The probability is reflected in volatility of earnings and overall performance. The borrower should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels. The borrower has the combination of reasonably sound assets and cash flow protection with adequate debt service capacity and has reported profits in the past year and is expected to report a profit in the current year.

Acceptable

This rating is given to a borrower whose risk elements are sufficiently pronounced to withstand normal business cycles but any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels. The risk to this borrower is still acceptable as there is sufficient cash flow either historically or expected for the future; new business or project finance transaction, an existing borrower where the nature of the exposure represents a higher risk because of extraordinary developments but for which a decreasing risk within an acceptable period can be expected.

Watchlist

This rating is given to a borrower which incurs net losses and has salient financial weaknesses, specifically in profitability, reflected on its financial statements. Credit exposure is not at risk of loss at the moment but performance of the borrower has weakened and unless present trends are reversed, could lead to losses.

Especially Mentioned

This rating is given to a borrower that exhibits potential weaknesses that deserve management's close attention. No immediate threat to the repayment of the loan exists through normal course of business but factors may exist that could adversely affect the credit worthiness of the borrower.

Substandard

This rating is given to a borrower where repayment of loan through normal course of business may be in jeopardy due to some adverse events. There exists the possibility of future losses to the institution unless given closer supervision.

Doubtful

This rating is given to a borrower who exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions, and values make collection or liquidation highly improbable, however the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors which may strengthen the assets.

Loss

This rating is given to a borrower whose loans or portions thereof are considered uncollectible. The collectible amount, with no collateral or which collateral is of little value, is difficult to measure and more practical to write-off than to defer even though partial recovery may be obtained in the future.

The following table shows credit quality per class of financial assets based on the Bank's rating system (gross of allowance for credit losses):

	2023				2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Receivables from customers:					
Corporate loans:					
High Grade	0	0	0	0	0
Standard Grade	1,823,294,944	0	0	1,823,294,944	1,633,622,191

	2023				2022
	Stage 1	Stage 2	Stage 3	Total	Total
Substandard Grade	22,661,382	221,008,803	591,030,229	834,700,414	954,280,402
Unrated	323,217,393	0	0	323,217,393	285,706,688
Past due but not impaired	0	43,026,635	223,306,879	266,333,514	48,604,103
Impaired	0	0	1,992,406,467	1,992,406,467	2,174,332,273
	2,169,173,719	**264,035,438**	**2,806,743,575**	**5,239,952,732**	**5,096,545,657**
Consumer loans:					
High Grade	0	0	0	0	0
Standard Grade	0	0	0	0	
Substandard Grade	0	0	0	0	0
Unrated	6,007,918,952	42,549	0	6,007,961,501	5,866,368,905
Past due but not impaired	3,602,929	215,207,035	58,879,527	277,689,491	513,940,635
Impaired	0	0	1,303,037,532	1,303,037,532	1,360,820,291
	6,011,521,881	**215,249,584**	**1,361,917,059**	**7,588,688,524**	**7,741,129,831**
Unquoted debt securities:					
High Grade	0	0	0	0	0
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	282,782	0	0	282,782	339,339
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	282,782	**0**	**0**	**282,782**	**339,339**
Sales contract receivables:					
High Grade	0	0	0	0	0
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	53,522,714	0	150,599,332	204,122,046	184,535,928
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	53,522,714	**0**	**150,599,332**	**204,122,046**	**184,535,928**
Accrued interest receivables:					
High Grade	0	0	0	0	0
Standard Grade	9,827,868	745,274	0	10,573,142	10,831,881
Substandard Grade	440,318	4,264,857	53,638,312	58,343,487	56,278,171
Unrated	35,835,258	9,282	78,921	35,923,461	44,184,356
Past due but not impaired	115,553	3,746,463	1,200,374	5,062,390	8,450,115
Impaired	0	0	56,111,887	56,111,887	60,402,186
	46,218,997	**8,765,876**	**111,029,494**	**166,014,367**	**180,146,709**
Accounts receivables:					
High Grade	0	0	0	0	0
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	242,735,154	1,093,807	0	243,828,961	223,217,358
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	242,735,154	**1,093,807**	**0**	**243,828,961**	**223,217,358**
Bills Purchased:					
High Grade	0	0	0	0	0
Standard Grade	0	0	0	0	0

	2023				2022
	Stage 1	Stage 2	Stage 3	Total	Total
Substandard Grade	0	0	0	0	0
Unrated	3,306,140	0	0	3,306,140	2,904,101
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	3,306,140	**0**	**0**	**3,306,140**	**2,904,101**
Total	**8,526,761,387**	**489,144,705**	**4,430,289,460**	**13,446,195,552**	**13,428,818,923**

Due from BSP and due from other banks are rated as high grade since these are deposited in or transacted with reputable banks which have low probability of insolvency. Government securities are rated as high grade since these are issued by the Republic of the Philippines.

(g) Past Due but not Impaired Loans and Receivables

These are loans and receivables where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of collateral available and or status of collection of amounts owed to the Bank.

As at December 31, 2023 aging analysis of past due but not individually impaired loans and discounts are shown below:

	90 to 180 days	Over 180 days	Total
Real estate	172,735,754	0	172,735,754
Corporate	222,089,690	44,243,822	266,333,512
Consumption	104,885,807	0	104,885,807
Others	67,932	0	67,932
	499,779,183	**44,243,822**	**544,023,005**

(h) Impaired Loans and Receivables and Investments Securities

These are certain loans and receivables and investment securities for which the Bank determines that it is highly probable that it will not be able to collect all principal and interest due based on the contractual terms of the promissory note and securities agreements.

The Bank holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees and other registered securities. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and these are updated every two years. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The Bank is not allowed to sell or pledge collateral held for reverse repurchase agreements. Collateral is not usually held against investment securities and no such collateral was held as at December 31, 2023 and 2022.

The total fair value of collaterals of impaired loans and receivables amounted to P2.48 billion and P2.21 billion as at December 31, 2023 and 2022, respectively. These collaterals consist of real estate mortgages and chattel mortgages.

It is the Bank's policy to dispose of foreclosed properties acquired in an orderly manner.

Such assets for disposal are offered for sale through public bidding (only after they are appraised anew to determine current market values and duly bid for, based on the approved minimum bid price). The proceeds of the sale of the foreclosed assets classified as Investment Properties and Assets held-for-sale in the statements of financial position are used to reduce or repay the outstanding claim.

As at December 31, 2023 and 2022, restructured loans amounted to P1.18 billion and P1.12 billion, respectively. Restructured loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs. As at December 31, 2023 and 2022, restructured loans considered as NPL amounted to P746.88 million and P805 million, respectively.

The breakdown of restructured loans and discounts by class are shown below:

	2023	2022
Corporate	1,043,738,619	978,743,000
Consumption	100,887,943	107,000,154
Real estate	38,951,096	19,480,660
Others	12	9,918,318
	1,183,577,670	**1,115,142,132**

(i) Impact of COVID-19 on Measurement of Expected Credit Loss

The Bank focused on supporting customers who are experiencing (i.e., those availing of reliefs) and about to experience financial difficulties (i.e., those with reprieved business operations) as a result of the COVID-19 situation and has offered a range of financial assistance measures including temporary loan repayment deferrals (principal and interest).

In accordance with regulatory guidance, the Bank implemented mandatory payment holidays to all eligible loan accounts. The following are the considerations in measuring ECL under COVID-19 situation:

(a) Significant Increase in Credit Risk

The offer or uptake of COVID-19 related repayment deferrals (i.e., government mandated reliefs) do not itself constitute SICR event unless the exposure is considered to have experienced a SICR based on other available information. SICR has been reassessed with reference to the Bank's internal borrower risk rating which considers industry or segment assessment under COVID-19 situation, financial performance indicators, historical credit information of the borrower and other modifiers. The Bank's reassessment is to determine if changes in the customers' circumstances were sufficient to constitute SICR.

(b) COVID-19 Overlay

COVID-19 overlay represents adjustments in relation to data and model limitations as a result of the COVID-19 economic disruption. The adjustments are based on a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level. This also includes the effect of government and other support program. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific sectors and loan classes or segments. The impact of post-model adjustments made in estimating the reported ECL as at December 31, 2023 and 2022 are disclosed in Note 18.

(j) Modification of Financial Assets

(a) Financial Reliefs Provided by the Bank

In certain cases, the Bank modifies the terms of the loans provided to borrowers due to commercial renegotiations, or for distressed loans, with a view of maximizing recovery of the contractual amount of obligation that the borrowers owed to the Bank. Restructuring policies and practices are based on indicators or criteria which, in the management's judgment, indicate that payment will most likely continue. Such policies are continuously reviewed and updated as necessary. Restructuring is most commonly applied to term or corporate loans.

In addition to the government-mandated reliefs, the Bank has offered financial relief in response to the COVID-19 situation. These relief measures were granted to eligible customers. Relief measures are as follows:

- payment of amortization relief including extension of contractual terms;
- principal and interest relief including lower amortization on extended terms; and
- change from loan line to term loan (i.e., consolidation of amounts due).

The outstanding balance of restructured loans amounts to P1.18 billion and P1.12 billion as of December 31, 2023 and 2022, respectively. The related allowance for credit loss of such loans amounts to P305.45 million and P217.16 million as of the same dates, respectively.

Of the total outstanding restructured loans as of December 31, 2023, P2.46 million are due to impact of COVID-19 situation.

(b) Financial Reliefs Mandated by the Government

In compliance with Republic Act No. 11469, *Bayanihan to Heal as One* Act), (BAHO Act) the Bank implemented a minimum 30-day grace period on all loans with principal and interests falling due within the period of the Enhanced Community Quarantine (ECQ), which started on March 17, 2020 up to April 30, 2020, which was extended until May 31, 2020.

In compliance with Republic Act No. 11494, *Bayanihan to Recover as One Act,* (BARO Act), the Bank granted one-time 60-day grace period for payments and/or maturity periods of all existing, current and outstanding loans as of September 15, 2020, falling due, or any part thereof, on or before December 31, 2020, subject to compliance with regulatory requirements.

During the grace period or payment holiday, there were no interests on interests, penalties or other charges but accrued interests at contractual rate for grace periods were charged based on the outstanding principal balance of loan at the time of application of the grace periods.

As of December 31, 2023 and 2022, the total outstanding balance of loans modified under BAHO and BARO Acts amounts to P2.46 billion and P2.69 billion, respectively.

The financial reliefs provided by the Bank and mandated by the Government has not resulted in material modification loss as the present value of the original cash flows and the present value of the revised cash flows were substantially equivalent.

The following table provides a summary of outstanding balances of modified loans resulting from the financial reliefs provided by the Bank and mandated by the Government as of December 31, 2023:

	2023 BAHO/BARO Accts.	2022 BAHO/BARO Accts.
Stage 1 (Performing)		
Corporate	83,093,543	101,023,044
Consumer	486,634,621	852,231,310
	569,728,164	**953,254,354**
Stage 2 (Underperforming)		
Corporate	26,008,803	543,090,464
Consumer	67,868,626	108,518,328
	93,877,429	**651,608,792**
Stage 3 (Non-performing)		
Corporate	1,051,525,827	153,747,942
Consumer	748,795,675	937,196,208
	1,800,321,502	**1,090,944,150**

(c) Assessment of SICR

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the performance of the financial asset subsequent to its modification.

The Bank may determine that the credit risk has significantly improved after restructuring (in accordance with the new terms for six consecutive months or more), so that the assets are moved from Stage 3 or Stage 2.

The Bank continues to monitor if there is a subsequent SICR in relation to such modified assets through the use of specific models for modified assets (see also Note 6.3).

6.3 Liquidity Risk

Liquidity risk is the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligation when they fall due without incurring unacceptable losses.

The Bank's objective in liquidity risk management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and be able to take advantage of interest rate opportunities when they arise.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets.

MCO is a liquidity gap tool to project short-term as well as long-term cash flow expectations on a business-as-usual condition. The MCO is generated by distributing the cash flows of the Bank's assets, liabilities and off-balance sheet items to time bands-based cash flow expectations such as contractual maturity, nature of the account, behavioral patterns, projections on business strategies, and/or optionality of certain products. The incorporation of behavioral cash flow assumptions and business projections or targets results in a dynamic gap report which 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 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 funding need for the given time bucket.

The Bank's MCO focuses on a 12-month period wherein cumulative outflow in various time bands within the 12-month period are compared to the acceptable MCO limits set by the BOD. Furthermore, internal liquidity ratios have been set. The Bank seeks to maintain sufficient liquidity by funding diversification and by maintaining a balanced loan portfolio which is repriced on a regular basis.

To supplement the business-as-usual scenario parameters reflected in the MCO report, the Bank also conducts liquidity stress testing to determine the impact of extreme factors, scenarios and/or events to the Bank's liquidity profile. Liquidity stress testing is performed quarterly.

Following are liquidity ratios monitored by the Bank:

- Liquid Assets Analysis

	2023		2022	
	Primary Reserve to Deposit*	**Secondary Reserves to Deposits****	**Primary Reserve to Deposit***	**Secondary Reserves to Deposits****
December	17.47%	12.49%	20.31%	7.49%
September	12.96%	11.21%	17.83%	12.87%

	2023		2022	
	Primary Reserve to Deposit*	**Secondary Reserves to Deposits****	**Primary Reserve to Deposit***	**Secondary Reserves to Deposits****
June	16.72%	8.77%	22.48%	13.48%
March	16.57%	7.25%	23.56%	12.12%

*Primary (Cash and Other Cash Items, due from BSP and other banks, interbank loans)
**Secondary [FVTPL, FVTOCI, Amortized cost and Unquoted debt securities]

- Loan to Deposit Ratio

	March	June	September	December
2023	97.17%	95.15%	92.87%	88.17%
2022	81.26%	81.97%	88.87%	91.63%

(a) Large Fund Providers

This measures the Bank's concentrated exposure to large lenders, which is monitored monthly by the RMD to check the Bank's vulnerability to a substantial drop in deposit levels as a result of an outflow due to large depositors. The report is presented to the ROC and BOD.

Percentage of large funds to total deposit liabilities follows:

	2023	2022
December	16.77%	13.67%
September	13.74%	15.63%
June	11.56%	17.25%
March	11.17%	19.90%

(b) Financial Assets and Financial Liabilities

Analysis of equity and debt securities at fair value into maturity banking is based on the expected date of realization and remaining contractual maturities, respectively.

For other assets, the analysis into contractual maturity banking is based on the remaining period from the end of the reporting period to the maturity date.

The maturity banking is based on the remaining period from the end of the reporting period to the contractual maturity date. When 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.

The table in the succeeding page shows the maturity profile of the Bank's financial assets and financial liabilities based on contractual cash flows (in thousands):

	2023					
	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Beyond 5 Years	Total
Financial Assets:						
Financial assets at FVTPL	1,326	836	6,625	175,847	52,051	236,685
Financial assets at FVOCI:						
Government securities	504,819	202,399	128,147	497,132	105,100	1,437,597
Financial assets at amortized cost	820	1,779	8,084	337,904	0	348,587
At amortized cost:						
Cash and other cash items	904,068	0	0	0	0	904,068
Due from BSP	971,903	0	0	0	0	971,903
Due from other banks	169,167	0	0	0	0	169,167
Loans and discounts:						
Corporate	1,949,599	669,593	578,926	1,328,069	947,928	5,474,115
Consumption	455,614	7,550	230,606	4,183,631	160,140	5,037,541
Real estate	18,458	2,530	35,429	388,057	4,010,038	4,454,512
Others	951	1,286	71,861	10,552	0	84,650
Unquoted debt securities	0	0	0	283	0	283
Sales contract receivable	19	0	1,592	14,201	226,679	242,491
Accrued interest receivable	166,014	0	0	0	0	166,014
Accounts receivable	243,829	0	0	0	0	243,829
Bills purchased	3,306	0	0	0	0	3,306
Total Financial Resources	5,389,893	885,973	1,061,270	6,935,676	5,501,936	19,774,748
Financial Liabilities:						
Deposit liabilities:						
Demand	3,020,710	0	0	0	0	3,020,710
Savings	6,118,087	0	0	0	0	6,118,087
Time	4,629,057	0	0	524,100	257,786	5,410,943
Total Financial Liabilities	13,767,854	0	0	524,100	257,786	14,549,740
Net Liquidity Surplus (Gap)	**(8,377,961)**	**885,973**	**1,061,270**	**6,411,576**	**5,244,150**	**5,225,008**

	2022					
	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Beyond 5 Years	Total
Financial Assets:						
Financial assets at FVTPL	147,261	0	0	0	0	147,261
Financial assets at FVOCI:						
Government securities	300,454	5,253	322,570	81,896	0	710,173
Financial assets at amortized cost	0	7,392	8,886	341,599	0	357,877

	2022					
	Up to 1 Month	**1 to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Beyond 5 Years**	**Total**
At amortized cost:						
Cash and other cash items	652,251	0	0	0	0	652,251
Due from BSP	1,523,682	0	0	0	0	1,523,682
Due from other banks	211,530	0	0	0	0	211,530
Loans and discounts:						
Corporate	1,933,991	605,693	383,777	1,582,223	859,241	5,364,925
Consumption	376,687	8,968	195,093	3,926,150	122,706	4,629,604
Real estate	22,159	213	17,159	378,747	4,165,800	4,584,078
Others	32,356	7,850	121,272	324,389	0	485,867
Unquoted debt securities	0	0	56	283	0	339
Sales contract receivable	19	11	276	10,572	313,224	324,102
Accrued interest receivable	180,147	0	0	0	0	180,147
Accounts receivable	0	0	223,217	0	0	223,217
Bills purchased	2,904	0	0	0	0	2,904
Total Financial Resources	5,383,441	635,380	1,272,306	6,645,859	5,460,971	19,397,957
Financial Liabilities:						
Deposit liabilities:						
Demand	3,292,768	0	0	0	0	3,292,768
Savings	6,502,880	0	0	0	0	6,502,880
Time	3,237,666	0	0	684,596	293,036	4,215,298
	13,033,314	0	0	684,596	293,036	14,010,946
Total Financial Liabilities	13,033,314	0	0	684,596	293,036	14,010,946
Net Liquidity Surplus (Gap)	**(7,649,873)**	**635,380**	**1,272,306**	**5,961,263**	**5,167,935**	**5,387,011**

In terms of a liquidity crisis, the Bank has put in place a liquidity contingency plan. Depending on the severity of the liquidity problem, the Bank may choose or be forced to use one or more of its liquidity sources. The Bank periodically tests its ability to draw on the identified sources of back-up liquidity.

(c) Liquidity Coverage Ratio

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on liquidity coverage ratio (LCR) and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows which should not be lower than 100 per cent. Per BSP Circular No. 1035, *Amendments to the Basel III Liquidity Coverage Ratio Framework and minimum Liquidity Ratio Framework*, compliance with the 100 per cent LCR minimum requirement. As at December 31, 2023 the Bank's compliance with LCR is at 132.78 per cent.

(d) Net Stable Fund Ratio

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 and Disclosure Standards*, which provides the implementing guidelines on Net Stable Funding Ratio and disclosure standards that are consistent with the Basel III framework. The NSFR is the ratio of Available Stable Funding (ASF) to the Required Stable Funding (RSF) which should not be lower than 100 per cent. Per BSP Circular No. 1034, *Amendments to the Basel III Framework on Liquidity Standards -Net Stable Funding Ratio and minimum NSFR Framework*, compliance with the 100 per cent NSFR minimum requirement. As at December 31, 2023 the Bank's compliance with NSFR is at 135.47 per cent.

6.4 Market Risk

Market risk is the risk to earnings and capital arising from adverse movements in factors that affect the market value of instruments, products and transactions in an institution's overall portfolio. The Bank's market risk originates primarily from holding peso-denominated debt securities which are sensitive to interest rate movements. The Bank is not subject to foreign currency risk and equity price risk since it does not have transactions denominated in foreign currency and investments in quoted equity securities.

(a) Trading Activities

Trading market risk exists in the Bank as the values of its trading positions are sensitive to changes in interest rates in the course of market making activities as well as from taking advantage of market opportunities. The Bank adopts the parametric Value at Risk (VaR) methodology (with 99 per cent confidence level and 10-day holding period) to measure trading market risk.

Volatilities are updated daily and are based on historical data for a rolling 260-day period. The RMD reports the VaR utilization and breaches to limit to the Treasury Division on a daily basis and to the ROC and BOD monthly. The VaR figures are back tested daily against hypothetical income statement to validate the robustness of the VaR model and reported to the ROC and BOD quarterly.

VaR Assumptions and Limitations

The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. It is based on historical volatilities and assumes that future price movements will follow a statistical distribution.

As VaR is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution, it may not apply to volatile markets. The VaR only estimates the potential loss of the portfolios at the close of each business day. It does not give the precise amount of loss and does not account for any losses that may occur beyond the 99 per cent confidence level. VaR is not designated to give the probability of bank failure, but only attempts to quantify losses that may arise from a bank's exposure to market risk.

VaR Limit

VaR limit has been set by the BOD subject to annual review. There was no instance for the years ended December 31, 2023 and 2022 that the aggregate daily losses were greater than the VaR limit. The Bank's VaR statistics follow (in thousands):

	2023	**2022**
December 31	15,380	10,644
Year to date average	10,585	5,337
High	16,360	11,162
Low	4,779	2,450

(b) Non-trading Activities

Interest Rate Risk

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuation in interest rates are kept within acceptable limits.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of "repricing gap" analysis using their repricing characteristics. To evaluate earnings exposure, interest rate-sensitive liabilities in each time band are subtracted from the corresponding interest rate-sensitive assets to produce a "repricing gap" for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one-year period gives the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Positive gap, on the other hand, occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

In period of rising interest rates, a positive gap is an advantage as assets are refinanced at increasing higher interest rates thereby increasing the net interest margin. However, in period of falling interest rates, a positive gap would restrain the growth of net interest income.

The repricing gap covering the one-year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from interest rate movement and such is compared with the limit set by the BOD on the level of earnings at risk (EaR) exposure deemed tolerable to the Bank. Compliance to the EaR limit is monitored monthly by the RMD. This EaR computation is accomplished monthly, with a quarterly stress test.

The following table sets forth the repricing gap position of the Bank (in thousands).

	2023				
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Total**
Financial Assets:					
Due from BSP	633,959	0	0	0	633,959
Loans receivables	904,103	1,074,024	499,299	1,092,929	3,570,355
Total financial assets	1,538,062	1,074,024	499,299	1,092,929	4,204,314
Financial Liability – Time deposits	2,396,727	1,641,502	148,656	617,859	4,804,744
Repricing Gap	**(858,665)**	**(567,478)**	**350,643**	**475,070**	**(600,430)**

	2022				
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Total**
Financial Assets:					
Due from BSP	1,065,000	0	0	0	1,065,000
Loans receivables	820,258	948,038	849,134	2,334,444	4,951,874
Total financial assets	1,885,258	948,038	849,134	2,334,444	6,016,874
Financial Liability – Time deposits	2,278,619	844,626	193,111	531,553	3,847,909
Repricing Gap	**(393,361)**	**103,412**	**656,023**	**1,802,891**	**2,168,965**

Interest Rate Sensitivity Analysis

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's mark-to-market gain/loss on financial assets at FVTPL and equity arising from mark-to-market gain/loss on FVOCI (amounts in millions).

	Impact of Changes in Interest Rates on Mark-to-Market Gain / Loss on Financial Assets at FVTPL*							
	2023				**2022**			
Increase (Decrease) in Basis Points	-100	-50	+50	+100	-100	-50	+50	+100
Change in mark-to-market gain / loss Financial Asset at FVTPL	2.07	2.67	-8.19	-11.56	4.40	2.13	-2.29	-4.52

**There is no other impact on the Bank's equity other than those already affecting the statements of income.*

	Impact of Changes in Interest Rates on Equity**							
	2023				**2022**			
Increase (Decrease) in Basis Points	-100	-50	50	100	-100	-50	+50	+100
Change in mark-to-market gain / loss Financial Asset at FVOCI	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

***The impact on the Bank's equity already excludes the impact on transactions affecting the statements of income.*

6.5 Operational Risk

As for operational risk, the Bank has completed the bankwide Operational Risk and Control Self-Assessment in support of the enterprise risk management framework of the Bank. RMD conducts a risk awareness training to new employees and a refresher course to existing employees. The seminar covers an introduction to all types of risks that the Bank is exposed to with focus on operational risk, information technology, and information security.

Operational risks are risks arising from the potential inadequate information systems and systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud, or unforeseen catastrophes that may result in unexpected loss.

Operational risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The ROC of the Bank assists management in meeting its responsibility to understand and manage operational risk exposures.

The ROC applies a number of techniques to efficiently manage operational risks. Among these are enumerated as follows:

- Each major business line has an embedded Risk Officer Designate who acts as a point person for the implementation of various operational risk tools. The Risk Officer Designates attend annual risk briefings conducted by RMD to keep them up-to-date with different operational risk issues, challenges and initiatives.

- With ROC's bottom-up self-assessment process, which is conducted at least annually, areas with high-risk potential are highlighted and reported, and control measures are identified. The results of said self-assessment exercise also serve as one of the inputs in identifying specific key risk indicators (KRIs).

- KRIs are used to monitor the operational risk profile of the Bank and of each business unit, and alert the management of impending problems in a timely fashion.

- Internal loss information is collected, reported and utilized to model operational risk.

7. CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure that it complies with externally imposed capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the 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 payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The breakdown of the Bank's risk-weighted assets as at December 31, 2023 and 2022 as reported to the BSP follows (in thousands):

	Without BSP Relief 2023	With BSP Relief 2023	With BSP Relief 2022
Credit risk-weighted assets	12,375,806	12,597,940	12,554,264
Market-risk weighted assets	59,613	59,613	46,583
Operational risk-weighted assets	2,105,234	2,105,234	2,326,292
	14,540,653	**14,762,787**	**14,927,139**

7.1 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 net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

The Bank has complied with the capital adequacy ratio prescribed by BSP. The Capital Adequacy Ratios (CAR) of the Bank, as reported to the BSP, is shown below and in the succeeding page (in thousands):

	2023 w/out relief	2023 with relief	2022 with relief
Qualifying Capital (consists of Tier 1 and Tier 2 Capital, net of required deductions)			
A. Tier 1 Capital			
A1. CET1 Capital			
1. Paid-up common stock	717,249	717,249	717,249
2. Additional paid-in capital	389,508	389,508	389,508
3. Retained earnings	1,122,464	1,283,981	1,297,909
4. Other comprehensive income	(2,153)	(2,153)	(64,649)
less: Regulatory adjustments to CET 1 Capital			
1. Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	5,565	5,565	13,786
2. Deferred tax assets	642,585	588,746	575,819
3. Other intangible assets	21,914	21,914	30,987
Total CET1 Capital	**1,557,004**	**1,772,360**	**1,719,425**
A2. Additional CET1 Capital	**0**	**0**	**0**
Total Tier 1 Capital	**1,557,004**	**1,772,360**	**1,719,425**
B. Tier 2 Capital			
1. General loan loss provision, limited to a maximum of 1.00% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio	92,201	92,201	89,294
Total Tier 2 Capital	**92,201**	**92,201**	**89,294**
Total Qualifying Capital	**1,649,205**	**1,864,561**	**1,808,719**

	2023 w/out relief	2023 with relief	2022 with relief
Risk Weighted Assets			
1. Total Credit Risk-Weighted Assets	12,375,806	12,597,940	12,554,264
2. Total Market Risk-Weighted Assets	59,613	59,613	46,583
3. Total Operational Risk-Weighted Assets	2,105,234	2,105,234	2,326,292
Total Risk-Weighted Assets	**14,540,653**	**14,762,787**	**14,927,139**
RISK-BASED CAPITAL ADEQUACY RATIO			
Common Equity Tier 1 Ratio	10.71%	12.01%	11.52%
Capital Conservation Buffer	4.71%	6.01%	5.52%
Tier 1 Capital Ratio	10.71%	12.01%	11.52%
Total Capital Adequacy Ratio	**11.34%**	**12.63%**	**12.12%**

Qualifying capital comprises share capital, surplus including current year profit less deferred income tax. 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 (MB) of the BSP.

Qualifying capital and risk-weighted assets are computed based on BSP regulations.

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

As at December 31, 2023 and 2022, the Bank has complied with all externally imposed capital requirements by the BSP.

7.2 BASEL III

On January 15, 2013, the BSP issued Circular 781, which contains the revised risk-based capital adequacy framework for the Philippine Banking system in accordance with the Basel III standards. The said Circular took effect on January 1, 2014. The following are the revised minimum capital requirements for Universal Banks (UBs) and Commercial Banks (KBs) and their subsidiary banks and quasi-banks (QBs):

- 6.0 per cent Common Equity Tier 1 (CET1)/Risk-Weighted Assets (RWAs)
- 7.5 per cent Tier 1 Capital/RWAs, and
- 10.0 per cent Total Qualifying Capital (Tier1 plus Tier2)/RWAs

The Qualifying Capital must consist of the sum of the following elements, net of required deductions: Tier 1 - 'going concern' [(CET1) plus Additional Tier 1(ATI)] and Tier 2 - 'gone concern'. A bank/quasi-bank must ensure that any component of capital included in qualifying capital complies with all the eligibility criteria for the particular category of capital in which it is included. The Circular further describes the elements/criteria that a domestic bank should meet for each capital category. Regulatory adjustments and calculation guidelines for each capital category are also discussed.

In conformity with the Basel III standards, a Capital Conservation Buffer (CCB) of 2.5 per cent of RWAs, comprised of CET1 capital, has been required of UBs/KBs and their subsidiary banks and quasi-banks. This buffer is meant to promote the conservation of capital and build-up of adequate cushion that can be drawn down by banks to absorb losses during financial and economic stress. The restrictions on distribution that a bank must meet at various levels of CET1 capital ratios are established, as shown in below table. Restrictions will be imposed if a bank has no positive earnings, has CET1 of not more than 8.5 per cent (CET Ratio of 6 per cent plus conservation buffer of 2.5 per cent) and has not complied with the minimum 10 per cent CAR.

Level of CET1 capital	Restriction on Distributions
<6.0	No distribution
6.0%-7.25%	No distribution until more than 7.25 per cent CET1 capital is met
>7.25%-8.5%	50 per cent of earnings may be distributed
>8.5%	No restriction on the distribution

7.3 Leverage Ratio

On June 9, 2015, the BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, covering the implementing guidelines on the Leverage Ratio framework designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than five per cent. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018 per BSP Circular No. 990, *Amendments to the Basel III Leverage Ratio Framework,* issued on January 22, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

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

8. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

8.1 Carrying Amounts and Fair Value by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown as follows (in thousands):

	2023		2022	
	Carrying Amounts	**Fair Values**	**Carrying Amounts**	**Fair Values**
Financial Resources:				
At amortized cost:				
Cash and other cash items	904,068	904,068	652,251	652,251
Due from BSP	971,903	971,903	1,523,682	1,523,682
Due from other banks	169,167	169,167	211,530	211,530
Interbank Loan Receivables and SPURA	499,260	499,260	363,471	363,471
Loans and receivables – net	11,479,221	10,521,975	11,415,779	10,712,219
Financial assets	308,964	297,756	314,715	295,320
Financial assets at:				
FVTPL	198,598	198,598	143,433	143,433
FVOCI	1,308,986	1,308,986	591,402	591,402
	15,840,167	**14,871,713**	**15,216,263**	**14,493,308**

	2023		2022	
	Carrying Amounts	**Fair Values**	**Carrying Amounts**	**Fair Values**
Financial Liabilities:				
At amortized cost:				
Deposit liabilities:				
Demand	3,020,710	3,020,710	3,292,768	3,292,768
Savings	6,118,087	6,118,087	6,502,880	6,502,880
Time	5,410,943	5,410,943	4,215,298	4,215,298
Accrued interest and other expenses	113,253	113,253	141,978	141,978
Other liabilities				
Bills purchased – contra	3,306	3,306	2,904	2,904
Managers' check	53,779	53,779	43,932	43,932
Due to PDIC	11,000	11,000	13,890	13,890
Due to Treasury of the Philippines	20,632	20,632	14,533	14,533
Miscellaneous	376,747	376,747	266,152	266,152
	15,128,457	**15,128,457**	**14,494,335**	**14,494,335**

Except for loans and receivables and financial assets at amortized cost with fair value disclosed different from their carrying amounts, management considers that the carrying amounts of other financial assets and financial liabilities presented above which are measured at amortized cost, approximate the fair values either because those instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material.

8.2 Offsetting of Financial Assets and Financial Liabilities

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements, each agreement between the Bank and its customers allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

9. FAIR VALUE MEASUREMENT AND DISCLOSURES

The methods and assumptions used by the Bank in estimating the fair value of its financial instruments are:

(a) Cash and Other Cash Items, Due from BSP and Due from Other Banks

The carrying amounts approximate fair value considering that these accounts consist mostly of overnight deposits and other short-term placements.

(b) Financial Assets at FVTPL, Financial Assets at FVOCI and Financial Assets at Amortized Cost

Fair value is generally based on quoted market prices, if available. 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. Except for financial assets at amortized cost, with fair value disclosed different from their carrying amounts, financial assets at FVTPL and financial assets at FVOCI – government securities, management considers that the carrying amounts approximate the fair value either because those instruments are short-term in nature or the effect of discounting for those maturities more than one year is not material.

(c) Unquoted Equity Securities

Fair value equals its carrying amount since the fair value could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. These are carried at cost, net of impairment.

(d) Loans and Receivables

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

(e) Liabilities

The carrying amounts approximate their fair value since these are relatively short-term in nature.

9.1 Fair Value Hierarchy

The Bank uses the following hierarchy in determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

9.2 Financial Assets Measured at Fair Value

Set out below is the fair value hierarchy of the Bank's financial assets measured at fair value as at December 31 (in thousands):

	2023			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Financial Resources				
Financial assets at FVTPL -				
Government securities held for trading	198,598	0	0	198,598
Financial assets at FVOCI -				
Government debt securities	1,308,986	0	0	1,308,986
	1,507,584	**0**	**0**	**1,507,584**
	2022			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Financial Resources				
Financial assets at FVTPL -				
Government securities held for trading	143,433	0	0	143,433
Financial assets at FVOCI -				
Government debt securities	591,402	0	0	591,402
	734,835	**0**	**0**	**734,835**

The fair value of the Bank's debt securities which consist of government bonds categorized within Level 1 is determined directly based on published closing prices available from the electronic financial data service providers which had been based on price quoted or actually dealt in an active market at the end of each of the reporting period.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

9.3 Financial Instruments at Amortized Cost for Which Fair Value is Disclosed

For cash and cash equivalents with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

The fair values of all other financial assets and financial liabilities are included in Level 3 which are not traded in an active market, and is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

9.4 Fair Value Measurement for Non-financial Assets

(a) Determining Fair Value of Investment Properties

The table below shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of December 31.

		2023		
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Investment properties:				
Land	0	515,334,149	0	515,334,149
Building	0	0	378,766,768	378,766,768
Assets Held-for Sale	0	0	14,283,965	14,283,965
	0	**515,334,149**	**393,050,733**	**908,384,882**

		2022		
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Investment properties:				
Land	0	506,362,310	0	506,362,310
Building	0	0	412,137,951	412,137,951
Assets Held-for Sale	0	0	23,744,862	23,744,862
	0	**506,362,310**	**435,882,813**	**942,245,123**

The fair value of the Bank's investment properties and assets held-for-sale is determined on the basis of the appraisals performed by various internal and external appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and assets held-for-sale, and the comparable prices in the corresponding property location.

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's non-financial assets indicated above is their current use.

The Level 2 fair values of land and buildings under Investment Properties account were derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value.

The Level 3 fair values of the land and buildings under Investment Properties account, and assets held-for-sale were determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

(b) Other Fair Value Information

The reconciliation of the carrying amounts of investment properties and assets held-for-sale included in Levels 2 and 3 are presented in Notes 15 and 16.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfers into or out of Level 2 and 3 fair value hierarchy in 2023 and 2022.

10. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents were as follows:

	2023	**2022**
Cash and other cash items	904,068,361	652,251,247
Due from BSP	971,902,862	1,523,681,596
Due from other banks	169,166,895	211,530,336
Securities Purchased under Resale Agreements (SPURA)	499,259,691	363,471,436
	2,544,397,809	**2,750,934,615**

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of teller, including automated teller machines. Cash items consist of coins and checks and cash items (other than currency on hand), such as checks drawn on other banks and other items received after the Bank's clearing cut-off time until the close of the regular banking hours.

Due from BSP represents the aggregate balance of demand deposit accounts maintained with the BSP primarily to meet reserve requirements and to serve as clearing account for interbank claims, and special deposit. The special deposit pertains to overnight and time deposit accounts. Interest rates on these special deposits range from 5.00 per cent to 6.72 per cent per annum in 2023 and 1.50 per cent to 6.60 per cent in 2022. Interest income earned on the placement made with BSP amounted to P45.70 million in 2023 and P41.06 million in 2022 and is presented as part of Interest income on Due from BSP and Other Banks account in the statement of income.

Due from other banks maintained under savings and demand accounts are as follows:

	2023	2022
Commercial banks:		
Savings	5,184,165	5,055,455
Demand	33,374,847	29,481,947
	38,559,012	34,537,402
Government banks:		
Savings	102,941,621	139,181,736
Demand	27,666,262	37,811,198
	130,607,883	176,992,934
	169,166,895	**211,530,336**

Interest rates on these deposits range from 0.05 per cent to 0.125 per cent per annum in 2023 and 0.05 per cent to 0.10 per cent per annum in 2022. Interest income earned on the placements made with other banks amounted to P87,521 in 2023 and P96,836 in 2022 and is presented as part of Interest income on Due from BSP and Other Banks account in the statements of income.

SPURA are lending to counterparties collateralized by government securities with maturities of less than three months from placement dates and earn annual interest of 5.50 per cent to 6.39 per cent in 2023 and 2.00 per cent to 5.50 per cent in 2022. Interest income from SPURA amounted to P25.76 million in 2023 and P10.42 million in 2022 and is presented as Interest income from securities purchased under resale agreements account in the statements of income.

11. TRADING AND INVESTMENT SECURITIES

This account consist of:

11.1 Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVTPL as at December 31, 2023 and 2022 are composed of Philippine peso-denominated government debt securities amounting to P198.60 million and P143.43 million, respectively. These debt securities classified as financial assets at FVTPL earn annual interest at rates ranging from 6.13 per cent to 7.00 per cent in 2023 and 1.71 per cent to 5.25 per cent in 2022 (see Note 11.4). All financial assets at FVTPL are held for trading.

For the years ended December 31, 2023 and 2022, net trading and securities gains (losses) in the statements of income resulted from:

	2023	2022
Net realized gains (losses)	237,422	1,981,443
Net unrealized gains (losses)	3,406,505	(7,251,334)
	3,643,927	(5,269,891)

11.2 Financial Assets at Fair Value Through Other Comprehensive Income

Financial Assets at FVOCI consist of Government debt securities amounting to P1.31 million and P0.59 million as of December 31, 2023 and 2022, respectively.

These debts securities classified as financial assets at FVOCI consist of fixed-rate treasury notes issued by the Philippine government and corporate bonds. Interest rate of 4.63 per cent to 7.00 per cent in 2023 and 2.60 per cent to 6.33 per cent in 2022. (see Note 11.4)

The details of net unrealized fair value gains (losses) on Financial Assets at FVOCI follow (see Note 27.2):

	2023	2022
Balance at beginning of the year	(4,803,455)	0
Net Unrealized gains (loss) recognized as other comprehensive income	10,944,936	(4,803,455)
Balance at end of year	**6,141,481**	**(4,803,455)**

11.3 Financial Assets at Amortized Cost

Financial assets at amortized cost consist of securities which bear nominal annual rates of 4.63 per cent to 18.25 per cent in 2023 and 2022. These securities have maturity of beyond two years from the end of the reporting periods. The account consists of the following:

	2023	2022
Amortized Cost-Corporate bonds	5,000,000	10,000,000
Amortized Cost-FXTN	301,000,000	301,000,000
Unamortized Discount/Premium	3,014,203	3,814,508
Allowance for Credit Losses	(50,000)	(100,000)
Balance at the end of year	**308,964,203**	**314,714,508**

11.4 Interest Income on Trading and Investment Securities

For the years ended December 31, 2023 and 2022, interest income on trading and investment securities in the statements of income is shown below:

	Note	2023	2022
Financial assets at:			
FVTOCI	11.2	52,239,840	34,417,174
Amortized cost	11.3	13,657,021	12,924,287
FVTPL	11.1	7,670,486	18,768,484
		73,567,347	**66,109,945**

12. LOANS AND RECEIVABLES

This account consists of:

	Note	2023	2022
Loans and discounts:			
Corporate		5,239,952,732	5,096,545,657
Consumption		4,455,308,897	4,151,386,335
Real estate		3,049,069,093	3,142,296,561
Others		84,310,534	447,446,935
		12,828,641,256	12,837,675,488
Accrued interest receivable		166,014,367	180,146,709
Accounts receivable		243,828,961	223,217,358
Sales contract receivable		204,122,046	184,535,928
Bills purchased		3,306,140	2,904,101
Unquoted debt securities		282,782	339,339
		13,446,195,552	13,428,818,923
Unearned discounts		(3,961,055)	(5,020,176)
Allowance for credit losses	18	(1,963,014,047)	(2,008,019,315)
		11,479,220,450	**11,415,779,432**

Other loans and discounts include industrial, agriculture and other type of loans.

Effective interest rates on loans and discounts range from 5.00 per cent to 12.00 per cent in 2023 and 7.00 per cent to 12.00 per cent in 2022.

Unquoted debt securities pertain to a 10-year bond of the Land Bank of the Philippines (LBP). The LBP bonds have various maturity dates starting from August 17, 2018 to August 17, 2028. Interest rates on the LBP bonds are based on 91-day treasury-bill rates. As at December 31, 2023, no unearned discounts on unquoted debt securities.

Accounts receivable mainly consists of amounts due from customers and other parties under open-account arrangements, claims such as insurance proceeds, advances to officers and employees and other miscellaneous receivables.

Accrued interest receivable consists of accrued interest on:

	2023	2022
Loans and discounts	158,183,512	176,469,532
Financial assets:		
FVTOCI	4,793,889	881,667
FVTPL	1,326,111	1,139,444
Amortized cost	884,003	891,642
Deposits with BSP and other banks	444,144	549,966
Sales contract receivable	378,222	210,938
Unquoted debt securities	4,486	3,520
	166,014,367	**180,146,709**

Interest income on loans and receivables consists of:

	2023	2022
Loans and discounts	872,842,790	798,977,767
Unquoted debt securities	14,635	8,715
Sales contracts receivable	10,851,014	5,272,268
	883,708,439	**804,258,750**

Interest Income from restructured loans amounted to P35.38 million and P34.63 million in 2023 and 2022, respectively.

Sales contracts receivable arise mainly from the sale of foreclosed properties booked under the Investment Properties and Assets held-for-sale accounts.

The following table shows information relating to loans and discounts classified as to secured and unsecured (in thousands):

	2023	2022
Loans secured by:		
Real estate mortgage	4,016,959	3,558,486
Chattel mortgage	867,364	1,192,222
Deposits	86,655	109,114
	4,970,978	4,859,822
Unsecured	7,860,969	7,980,758
	12,831,947	**12,840,580**

13. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2023 and 2022 are shown below and in the succeeding page.

	Land	Buildings and Improvements	Furniture, Fixtures and Office Equipment	Leasehold Improvement	Right-of-use Asset	Total
December 31, 2023						
Cost	1,011,711	42,151,998	194,549,277	181,481,979	102,078,557	521,273,522
Accumulated Depreciation and amortization	0	(27,628,309)	(161,627,395)	(125,655,344)	(29,620,129)	(344,531,177)
Allowance for Losses	0	0	(325,918)	0	0	(325,918)
Net carrying amount	**1,011,711**	**14,523,689**	**32,595,964**	**55,826,635**	**72,458,428**	**176,416,427**

	Land	Buildings and Improvements	Furniture, Fixtures and Office Equipment	Leasehold Improvement	Right-of-use Asset	Total
December 31, 2022						
Cost	1,011,711	42,151,998	189,015,530	169,529,176	105,549,707	507,258,122
Accumulated Depreciation and amortization	0	(24,777,998)	(161,365,158)	(102,263,122)	(42,799,651)	(331,205,929)
Allowance for Losses	0	0	(325,918)	0	0	(325,918)
Net carrying amount	**1,011,711**	**17,374,000**	**27,324,454**	**67,266,054**	**62,750,056**	**175,726,275**
January 1, 2022						
Cost	1,011,711	42,151,998	199,948,787	210,254,586	72,970,384	526,337,466
Accumulated Depreciation and amortization	0	(24,777,998)	(172,010,006)	(142,926,310)	0	(339,714,314)
Allowance for Losses	0	0	(325,918)	0	0	(325,918)
Net carrying amount	**1,011,711**	**17,374,000**	**27,612,863**	**67,328,276**	**72,970,384**	**186,297,234**

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2023 and 2022 is shown below and in the succeeding page.

	Land	Buildings and Improvements	Furniture, Fixtures and Office Equipment	Leasehold Improvement	Right-of-use Asset	Total
Balance at January 1, 2023 net of accumulated depreciation and amortization	1,011,711	17,374,000	27,612,863	67,328,277	72,970,384	186,297,235
Additions	0	0	12,895,357	13,208,503	39,346,090	65,449,950
Transfer and Reclassification	0	0	1,935,211	(1,317,923)	(10,237,917)	(9,620,629)
Disposal	0	0	(9,104)	0	0	(9,104)
Depreciation and amortization charges for the year	0	(2,850,311)	(9,838,363)	(23,392,222)	(29,620,129)	(65,701,025)
Allowance for losses for the year	0	0	0	0	0	0
Balance at December 31, 2023 net of accumulated depreciation and amortization	**1,011,711**	**14,523,689**	**32,595,964**	**55,826,635**	**72,458,428**	**176,416,427**

	Land	Buildings and Improvements	Furniture, Fixtures and Office Equipment	Leasehold Improvement	Right-of-use Asset	Total
Balance at January 1, 2022 net of accumulated depreciation and amortization	1,011,711	20,063,464	46,529,097	95,299,147	115,038,035	277,941,454
Additions	0	109,300	9,640,253	5,521,618	2,665,663	17,936,834
Transfer and Reclassification	0	0	(11,064,586)	(299,999)	(0)	(11,364,585)
Disposal	0	0	(1,131,863)	0	(12,153,991)	(13,285,854)
Depreciation and amortization charges for the year	0	(2,798,764)	(16,322,529)	(33,254,712)	(42,799,651)	(95,175,656)
Allowance for losses for the year	0	0	(325,918)	0	0	(325,918)
Balance at December 31, 2022 net of accumulated depreciation and amortization	**1,011,711**	**17,374,000**	**27,324,454**	**67,266,054**	**62,750,056**	**175,726,275**

As at December 31, 2023 and 2022, the original cost of fully depreciated bank premises, furniture, fixtures and equipment still in use by the Bank amounted to P133.90 million and P141.88 million, respectively.

As at December 31, 2023 and 2022, there were no idle and retired bank premises, furniture, fixtures and equipment.

Gain on disposal of bank premises, furniture, fixtures and equipment amounted to P252,229 and P7.68 million in 2023 and 2022, respectively, and is presented under Miscellaneous income under Other Operating Income section of the statements of income. (See Note 24).

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50 per cent of the respective unimpaired capital of the Bank. As of December 31, 2023 and 2022, the Bank has complied with this BSP requirement.

14. LEASES

The Bank leases the land currently occupied by its branches for periods ranging from one to 20 years, renewable upon mutual agreement of the Bank and the lessor under certain terms and conditions. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statements of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and asset. Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. For leases of offices, the Bank kept those properties in good state of repair and return the properties in their original condition at the end of the lease. Further, the Bank ensures the leased assets and maintenance fees incurred are in accordance with the lease contracts.

The table below describes the nature of the Bank's leasing activities of right-of-use asset recognized in the statements of financial position.

	Number of rights-of-use assets lease	Range of remaining term	Average remaining lease term	Number of leases with extension	Number of leases with options to purchase	Number of leases with termination options
Offices	59	1-10 years	2.13 years	0	0	59

14.1 Lease Liabilities

There are no lease liabilities and amounts in respect of possible future lease termination options not recognized.

As at December 31, 2023, the Bank has not committed leases which have not commenced yet.

The undiscounted maturity analysis of lease liabilities at December 31, are as follows:

2023	Within 1 year	Two to Five years	More than Five years	Total
Lease Payments	4,190,269	75,005,579	14,361,163	93,557,011
Finance Charges	(511,427)	(3,811,461)	(683,302)	(5,006,190)
Lease Liability	**3,678,842**	**71,194,118**	**13,677,861**	**88,550,821**

2022	Within 1 year	Two to Five years	More than Five years	Total
Lease Payments	6,931,355	49,558,765	31,868,823	88,358,943
Finance Charges	(801,486)	(3,666,756)	(1,533,685)	(6,001,927)
Lease Liability	**6,129,869**	**45,892,009**	**30,335,138**	**82,357,016**

14.2 Lease Payment Not Recognized as Liabilities

The Bank has elected not to recognize a lease liability for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

14.3 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P38.14 million and P57.01 million in 2023 and 2022, respectively. Interest expense in relation to lease liabilities amounted to P5.01 million and P6.00 million and is presented as part of Interest Expense in 2023 and 2022 statements of income.

15. INVESTMENT PROPERTIES

Investment properties consist of various land, and buildings and improvements acquired through foreclosure or dacion as payment of outstanding loans by the borrowers. The difference between the fair value of the asset upon foreclosure and the carrying value of the loan is recognized as part of Gain/(Loss) on Sale and Foreclosure of Assets - net account in the statements of income.

The gross carrying amounts and accumulated depreciation, amortization and impairment of investment properties at the beginning and end of 2023 and 2022 are shown below.

	Land	Buildings and Improvements	Total
December 31, 2023			
Cost	515,334,149	378,766,768	894,100,917
Accumulated Depreciation	0	(84,289,597)	(84,289,597)
Accumulated Impairment	(20,328,892)	(3,221,717)	(23,550,609)
Net carrying amount	**495,005,257**	**291,255,454**	**786,260,711**
December 31, 2022			
Cost	506,362,310	412,137,951	918,500,261
Accumulated Depreciation	0	(87,961,400)	(87,961,400)
Accumulated Impairment	(19,327,553)	(2,717,118)	(22,044,671)
Net carrying amount	**487,034,757**	**321,459,433**	**808,494,190**
January 1, 2022			
Cost	525,695,115	575,100,963	1,100,796,078
Accumulated Depreciation	0	(171,231,718)	(171,231,718)
Accumulated Impairment	(22,229,051)	(2,717,118)	(24,946,169)
Net carrying amount	**503,466,064**	**401,152,127**	**904,618,191**

Reconciliations of the carrying amounts of investment properties at the beginning and end of 2023 and 2022 as follows:

	2023			2022		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	506,362,310	412,137,951	918,500,261	525,695,115	575,100,963	1,100,796,078
Additions	53,540,220	17,991,920	71,532,140	40,512,347	38,640,489	79,152,836
Disposals	(44,568,381)	(51,363,103)	(95,931,484)	(42,357,824)	(213,652,804)	(256,010,628)
Adjustments	0	0	0	(17,487,328)	12,049,303	(5,438,025)
Balance at end of year	**515,334,149**	**378,766,768**	**894,100,917**	**506,362,310**	**412,137,951**	**918,500,261**
Accumulated depreciation						
Balance at beginning of year	0	87,961,400	87,961,400	0	171,231,718	171,231,718
Depreciation and amortization	0	14,415,027	14,415,027	0	25,906,674	25,906,674
Disposals	0	(18,086,830)	(18,086,830)	0	(109,176,992)	(109,176,992)
Balance at end of year	**0**	**84,289,597**	**84,289,597**	**0**	**87,961,400**	**87,961,400**

	2023			2022		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Allowance for impairment and losses						
Balance at beginning of year	19,327,553	2,717,118	22,044,671	22,229,051	2,717,118	24,946,169
Adjustments	4,095,187	504,599	4,599,786	(1,143,318)	0	(1,143,318)
Disposals	(3,093,848)	0	(3,093,848)	(1,758,180)	0	(1,758,180)
Balance at end of year	**20,328,892**	**3,221,717**	**23,550,609**	**19,327,553**	**2,717,118**	**22,044,671**
Carrying amount at the end of year	**495,005,257**	**291,255,454**	**786,260,711**	**487,034,757**	**321,459,433**	**808,494,190**

The aggregate fair value of the investment properties amounted to P1.70 billion and P1.40 billion as at December 31, 2023 and 2022, respectively. Fair value has been determined based on valuations made by independent and/or in-house appraisers.

The fair values of the Bank's land under investment properties have been determined in using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations, hence, included in the Level 2. On the other hand, the Bank's buildings were derived from the observable recent prices of the reference properties and adjusted based on the property size, zoning and accessibility. Thus, the fair value is included in Level 3 (see Note 9.4).

Direct operating Expenses on investment properties for the bank amounted to P14.87 million and P33.84 million in 2023 and 2022, respectively and is presented as Litigation under Other Operating Expenses in the statements of income.

In 2023 and 2022, the Bank recognized fair value gain on foreclosure and sale of investment as part of Gain on Sale and Foreclosure of Assets - net account under Other Operating Income section of the statements of income amounting to P4.31 million and fair value loss of P34.84 million, respectively.

The Bank recognized gain on sale of P19.31 million on investment properties in 2023 and gain amounting to P122.36 million in 2022, which are presented as part of Gain on Sale and Foreclosure of Assets - net account under Other Operating Income section of the statements of income.

16. ASSETS HELD-FOR-SALE

This account consists of chattel properties acquired from foreclosure of collaterals during the year such as motorcycles and other vehicles. These properties are readily available for immediate sale in its present condition and that management believes that the sale is highly probable at the time of reclassification.

The changes in the carrying amount of the assets held-for-sale are summarized as follows:

	2023	2022
Beginning balance	22,856,539	27,522,309
Repossessions	51,780,140	90,657,715
Sale and redemption	(61,242,044)	(95,323,485)
	13,394,635	**22,856,539**

As at December 31, 2023 and 2022, allowance for impairment loss on assets-held-for sale amounted to P0.89 million (see Note 18).

In 2023 and 2022, the Bank recognized loss on foreclosure of assets-held-for-sale amounting to P4.11 million and P22.24 million, respectively, and is presented as part of Gain on Sale and foreclosure of Assets - net account in the statements of income.

17. INTANGIBLE AND OTHER RESOURCES

This account consists of the following:

	2023	2022
Advance rentals and refundable deposits	35,860,208	27,486,292
Deferred charges	35,705,752	61,380,606
Software costs – net	21,914,310	30,986,501
Prepaid expenses	15,906,242	17,759,055
Deferred assets – car lease	4,976,680	13,447,724
Stationery supplies	1,662,272	958,181
Other Assets-FFE	515,736	998,935
Miscellaneous	5,420,255	3,538,204
	121,961,455	156,555,498
Allowance for impairment loss	(515,229)	(998,314)
	121,446,226	**155,557,184**

Advance rentals and refundable deposits include rental deposits for the lease of the various branches of the Bank from several parties.

Deferred charges include deferred commissions that are directly associated with loans and discounts with customers. The commissions are deferred and amortized over the terms of the related loans, which is typically ranging from 36 to 60 months.

Deferred assets represent leases of vehicles to managerial employees and officers.

The gross carrying amounts of software costs at the beginning and end of 2023 and 2022 is shown below:

	2023	2022
Cost	94,235,605	78,108,877
Accumulated amortization	(72,321,295)	(47,122,376)
Net carrying amount	**21,914,310**	**30,986,501**

A reconciliation of the carrying amount of software costs at the beginning and end of 2023 and 2022 is shown below.

	2023	2022
Balance at January 1, net of accumulated amortization	30,986,501	37,885,066
Additions	16,700,362	19,004,426
Amortization charges for the year	(25,408,908)	(23,955,973)
Disposal / Reclassification	(363,645)	(1,947,018)
Balance at December 31, net of accumulated amortization	**21,914,310**	**30,986,501**

18. ALLOWANCES FOR CREDIT AND IMPAIRMENT LOSSES

Changes in the allowances for credit and impairment losses are summarized as follows:

	Note	2023	2022
Balances at beginning of year:			
Loans and receivables	12	2,008,019,315	1,993,499,292
Investment properties	15	22,044,671	24,946,169
Assets held-for-sale	16	888,324	4,936,702
Other resources	17	998,314	753,145
		2,031,950,624	2,024,135,308
Credit and impairment losses during the year			
Loans and receivables		213,363	30,948,579
Investment properties		0	0
Assets held-for-sale		0	2,000,000
Other resources		29,877	273,207
		243,240	33,221,786
Disposals:			
Loans and Receivables		(42,302,788)	(16,428,556)
Investment properties	15	(3,093,848)	(1,758,180)
Assets held for sale		(1,476,020)	(6,866,980)
Other resources		0	0
		(46,872,656)	(25,053,716)
Reversals/reclassifications			
Loans and receivables		(2,915,843)	0
Investment properties	15	4,599,786	(1,143,318)
Assets held-for-sale		1,477,026	818,602
Other resources		(512,962)	(28,038)
		2,648,007	(352,754)
Balances at end of year:			
Loans and receivables	12	1,963,014,047	2,008,019,315
Investment properties	15	23,550,609	22,044,671
Assets held-for-sale	16	889,330	888,324
Other resources	17	515,229	998,314
		1,987,969,215	**2,031,950,624**

Presented below is the breakdown of allowance for credit and impairment losses for Loans and Receivable as at December 31, 2023:

	Stage 1	Stage 2	Stage 3	Total
Loans and Receivables:				
Loans and discounts:				
Corporate	21,656,609	20,778,449	1,364,000,104	1,406,435,162
Consumption	35,730,844	4,808,378	335,976,937	376,516,159
Real estate	23,559,377	6,029,150	84,732,804	114,321,331
Others	9,020,967	375,945	56,344,483	65,741,395
	89,967,797	**31,991,922**	**1,841,054,328**	**1,963,014,047**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for loans and discounts in 2023 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Corporate				
Gross carrying amount as at January 1, 2023	1,960,749,156	946,528,981	2,189,267,520	5,096,545,657
New assets originated or purchased	2,664,079,835	0	0	2,664,079,835
Assets derecognized or repaid	(2,454,852,975)	(15,339,237)	(7,004,232)	(2,477,196,444)
Transfers from Stage 1	(802,297)	802,297	0	0
Transfers to Stage 2	0	0	0	0
Transfers to Stage 3	0	(667,956,603)	667,956,603	0
Transfer to Investment Property	0	0	(43,476,316)	(43,476,316)
Amounts written off	0	0	0	0
	2,169,173,719	**264,035,438**	**2,806,743,575**	**5,239,952,732**
ECL allowance as at January 1, 2023 under PFRS 9	23,095,954	197,055,030	1,369,281,334	1,589,432,318
Provisions	0	0	0	0
Assets derecognized or repaid	0	0	0	0
Transfers from Stage 1	(1,439,345)	1,439,345	0	0
Transfers to Stage 2	0	5,281,230	(5,281,230)	0
Transfers to Stage 3	0	(182,997,156)	0	(182,997,156)
Amounts written off	0	0	0	0
	21,656,609	**20,778,449**	**1,364,000,104**	**1,406,435,162**
Consumption				
Gross carrying amount as at January 1, 2023	3,194,448,786	103,232,734	853,704,815	4,151,386,335
New assets originated or purchased	2,158,208,000	0	0	2,158,208,000
Assets derecognized or repaid	(1,580,041,755)	(58,753,225)	(112,355,831)	(1,751,150,811)
Transfers to (from) Stage 1	(199,530,600)	199,530,600	0	0
Transfers to (from) Stage 2	0	(149,411,460)	149,411,460	0
Transfers to (from) Stage 3	0	0	0	0
Transfer to Investment Property	0	0	(61,625,243)	(61,625,243)
Amounts written off	0	0	(41,509,384)	(41,509,384)
	3,573,084,431	**94,598,649**	**787,625,817**	**4,455,308,897**
ECL allowance as at January 1, 2023 under PFRS 9	31,944,488	7,345,771	177,957,229	217,247,488
Provisions (recovery)	0	0	0	0
Assets derecognized or repaid	0	0	0	0
Transfers to (from) Stage 1	3,786,356	(3,786,356)	0	0
Transfers to (from) Stage 2	0	1,248,963	(1,248,963)	0
Transfers to (from) Stage 3	0	0	200,778,057	200,778,057
Amounts written off	0	0	(41,509,386)	(41,509,386)
	35,730,844	**4,808,378**	**335,976,937**	**376,516,159**
Real estate				
Gross carrying amount as at January 1, 2023	2,340,281,690	199,147,364	602,867,507	3,142,296,561
New assets originated or purchased	272,624,179	0	0	272,624,179
Assets derecognized or repaid	(274,965,196)	(34,869,243)	(56,017,208)	(365,851,647)
Transfers to (from) Stage 1	17,997,037	(17,997,037)	0	0

	Stage 1	Stage 2	Stage 3	Total
Transfers to (from) Stage 2	0	(25,698,081)	25,698,081	0
Transfers to (from) Stage 3	0	0	0	0
Transfer to Investment Property	0	0	0	0
Amounts written off	0	0	0	0
	2,355,937,710	**120,583,003**	**572,548,380**	**3,049,069,093**
ECL allowance as at January 1, 2023 under PFRS 9	23,402,817	13,618,932	73,600,764	110,622,513
Provisions	0	0	0	0
Transfers to Stage 1	156,560	(156,560)	0	0
Transfers from Stage 2	0	(11,132,040)	11,132,040	0
Transfers from Stage 3	0	3,698,818	0	3,698,818
Amounts written off	0	0	0	0
	23,559,377	**6,029,150**	**84,732,804**	**114,321,331**
Others				
Gross carrying amount as at January 1, 2023	584,474,352	172,288,849	281,487,830	1,038,251,031
New assets originated or purchased	800,712,388	0	0	800,712,388
Assets derecognized or repaid	(1,133,040,722)	(1,275,530)	(1,988,933)	(1,136,305,185)
Transfers from Stage 1	0	0	0	0
Transfers to Stage 2	178,258,591	(178,258,591)	0	0
Transfers to Stage 3	0	14,071,347	(14,071,347)	0
Transfer to Investment Property	0	0	(793,404)	(793,404)
	430,404,609	**6,826,075**	**264,634,146**	**701,864,830**
ECL allowance as at January 1, 2023 under PFRS 9	6,685,551	17,750,340	66,281,105	90,716,996
Provisions	213,363	0	0	213,363
Assets derecognized or repaid	0	0	0	0
Transfers to Stage 1	2,122,053	(2,122,053)	0	0
Transfers to Stage 2	0	(15,252,342)	15,252,342	0
Transfers from Stage 3	0	0	(24,395,560)	(24,395,560)
Amounts written off	0	0	(793,404)	(793,404)
	9,020,967	**375,945**	**56,344,483**	**65,741,395**

The Bank's trading and investment securities have no impairment losses during the year.

19. DEPOSIT LIABILITIES

This account consists of the following deposits:

	2023	2022
Demand	3,020,710,212	3,292,768,200
Savings	6,118,086,771	6,502,880,443
Time	5,410,942,964	4,215,297,693
	14,549,739,947	**14,010,946,336**

Savings deposit liabilities consist of regular and special savings accounts. The regular savings accounts bear annual interest rate of 0.30 per cent in 2023 and 2022; The special savings account bears annual interest rate ranging from 0.35 per cent to 0.45 per cent in 2023 and 0.30 per cent to 0.40 per cent in 2022. While the time deposits bear annual interest rate ranging from 1.23 per cent to 2.88 per cent in 2023 and 0.38 per cent to 2.31 per cent in 2022.

Details of interest expense on deposit liabilities follow:

	2023	2022
Demand	8,146,414	8,487,677
Savings	21,203,175	22,229,038
Time	187,973,755	96,954,734
	217,323,344	**127,671,449**

Under BSP Circular No. 997 and 1004, Series of 2018, the MB approved the one-percentage-point increase in the reserve requirements of thrift banks applicable to the Bank, to three per cent in 2020. As at December 31, 2023 and 2022, the Bank is in compliance with such regulations.

Liquidity and statutory reserves pertain to Due from BSP amounting to P0.97 billion and P1.52 billion as of Dec. 31, 2023 and 2022, respectively (see Note 10). The Bank is in compliance with such regulations as of December 31, 2023 and 2022.

The maturity profile of deposit liabilities is disclosed in Note 6.3.

20. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

This account consists of:

	2023	2022
Accrued interest payable	27,413,062	11,797,933
Accrued other taxes and licenses	16,559,089	15,546,859
Insurance payable to PDIC	11,000,000	13,889,731
Outside services and utilities	32,738,478	12,225,470
Staff benefits	6,084,239	66,318,887
Salaries of seconded employees	14,994,619	6,813,102
Others	21,022,537	29,276,443
	129,812,024	**155,868,425**

Others account includes human resource activities, repairs and maintenance, freight and communication. Human resource activities include expenses for the Bank's initiatives and performance bonuses given to the employees of the bank.

21. OTHER LIABILITIES

This account consists of:

	Note	2023	2022
Dividends payable	27.1	21,802,863	21,802,863
Accounts payable		168,396,693	159,495,463
Managers checks and demand drafts outstanding		53,779,098	51,967,934
Withholding taxes payable		10,472,356	6,740,679
Due to the Treasurer of the Philippines		20,631,541	14,532,854
SSS, Medicare, ECC, compensation premiums		4,090,949	3,471,097
Deferred credits		33,422,294	39,292,318
Lease Liabilities	14.1	88,550,821	82,357,016
Miscellaneous		32,477,643	58,697,856
		433,624,258	**438,358,080**

Accounts payable includes payment on loans pending liquidation and restructuring amounting to P134.93 million and 121.31 million as of December 31, 2023 and 2022. These are not considered as liabilities to third party as these are subject to negotiations and remediation which takes stages in approval and documentation.

Majority of the outstanding manager's checks as of December 31, 2023 pertains to loan releases near year-end and various dealers and salesman incentive fees which were presented for payment subsequent to December 31, 2022. Accordingly, significant part of managers checks outstanding as of December 31, 2023 and 2022 was already reversed on the succeeding quarter.

As at December 31, 2023 and 2022, deferred credits include unearned service fees related to loans and receivables.

Miscellaneous include payables for the cost of personal and commercial checkbooks and deposit for keys on safety deposit boxes.

22. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table presents the financial assets and financial liabilities analyzed according to whether they are expected to be recovered or settled in less than 12 months and over 12 months from statements of financial position date (in thousands):

	2023			2022		
	Within One Year	**Beyond One Year**	**Total**	**Within One Year**	**Beyond One Year**	**Total**
Financial Resources						
Cash and other cash items	904,068	0	904,068	652,251	0	652,251
Due from BSP	971,903	0	971,903	1,523,682	0	1,523,682
Due from other banks	169,167	0	169,167	211,530	0	211,530
SPURA	499,260	0	499,260	363,471	0	363,471

	2023			2022		
	Within One Year	**Beyond One Year**	**Total**	**Within One Year**	**Beyond One Year**	**Total**
Financial assets:						
FVTPL	0	198,598	198,598	143,433	0	143,433
FVTOCI	803,845	505,141	1,308,986	591,402		591,402
Amortized Cost	0	308,964	308,964	0	314,715	314,715
Loans and discounts - gross	4,232,055	8,596,586	12,828,641	3,873,052	8,964,623	12,837,675
Unquoted debt securities - gross	0	283	283	56	283	339
Accrued interest receivable	166,014	0	166,014	180,147	0	180,147
Sales contract receivables	1,728	202,394	204,122	350	184,186	184,536
Accounts receivable	243,829	0	243,829	223,217	0	223,217
Bills purchased	3,306	0	3,306	2,904	0	2,904
Unearned discount	(3,961)	0	(3,961)	(5,020)	0	(5,020)
	7,991,214	9,811,966	17,803,180	7,760,475	9,463,807	17,224,280
Allowance for credit and impairment losses	0	(1,963,014)	(1,963,014)	0	(2,008,019)	(2,008,019)
	7,991,214	7,848,952	15,840,166	7,760,475	7,455,788	15,216,263
Non-Financial Resources						
Bank premises, furniture and fixtures	0	176,416	176,416	0	175,726	175,726
Assets held-for-sale - net	13,395	0	13,395	22,857	0	22,857
Investment properties - net	0	786,261	786,261	0	808,494	808,494
Intangible and other resources –net	0	121,446	121,446	0	155,557	155,557
Deferred tax assets	0	656,967	656,967	0	654,175	654,175
	13,395	1,741,090	1,754,485	22,857	1,793,952	1,816,809
	8,004,609	**9,590,042**	**17,594,651**	**7,783,332**	**9,249,740**	**17,033,072**
Financial Liabilities						
Deposit liabilities	13,767,854	781,886	14,549,740	12,915,499	1,095,447	14,010,946
Manager's checks and demand drafts outstanding	53,779	0	53,779	51,968	0	51,968
Accrued interest and other expenses	113,254	0	113,254	41,235	0	41,235
Retirement Liability	31,839	0	31,839	3,795	0	3,795
Other liabilities	379,845	0	379,845	386,390	0	386,390
	14,346,571	781,886	15,128,457	13,398,888	1,095,447	14,494,335
Non-Financial Liabilities						
Accrued interest and other expenses	16,559	0	16,559	114,634	0	114,634
Income tax payable	2,842	0	2,842	1,404	0	1,404
	19,401	0	19,401	116,038	0	116,038
	14,365,972	**781,886**	**15,147,858**	**13,514,926**	**1,095,447**	**14,610,373**

23. EMPLOYEE BENEFITS

23.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below:

	Note	2023	2022
Salaries and wages		364,327,469	377,387,589
Fringe benefits		90,810,579	81,097,734
Retirement - defined benefit plan	23.2	22,823,935	33,662,519
Short-term medical benefits		12,667,345	7,188,837
		490,629,328	**499,336,679**

23.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a tax-qualified, non-contributory defined benefit retirement plan that is being administered by a trustee covering all regular employees (see Note 28.4).

The normal retirement age is 65 with a minimum of five years of credited service. The plan also provides for an early retirement at age 60 with a minimum of 15 years of credited service and late retirement after age 60, both subject to the approval of the BOD. Normal retirement benefit is an amount equivalent to 150 per cent of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the post-employment benefit costs and the amounts of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2023.

The amounts of retirement benefit obligation recognized in the statement of financial position is determined as follows:

	2023	2022
Present value of retirement obligation	235,536,343	195,829,747
Fair value of plan assets	(203,697,168)	(192,034,339)
	31,839,175	**3,795,408**

The movements of the present value of defined benefits obligation of the Bank follow:

	2023	2022
Balance at beginning of year	195,829,747	247,637,648
Current service cost	22,543,075	29,890,919
Interest expense	14,491,401	12,877,158
Remeasurement – actuarial losses (gains) arising from:		
Change in financial assumptions	38,329,253	(79,057,186)
Experience adjustment Benefits paid	(17,223,521)	(6,270,032)
Benefits paid	(18,433,612)	(9,248,760)
Balance at end of year	**235,536,343**	**195,829,747**

The movements of the fair value of plan assets are presented below.

The actual return on plan assets amounted to a gain of P7.272 million in 2023 and loss of P7.486 million in 2022.

The composition of the fair value of plan assets at the end of each reporting period by category and risk characteristics is shown below.

	2023	2022
Cash and cash equivalents	13,056,988	28,133,031
Debt securities	188,868,014	162,038,575
Equity securities	1,731,426	1,805,123
Others	40,740	57,610
	203,697,168	**192,034,339**

The fair values of the above debt and equity securities are determined based on quoted market prices in active market (classified as Level 1 of the fair value hierarchy).

The components of amounts recognized in the statement of income and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	2023	2022
Reported in statement of income		
Current service cost	22,543,075	29,890,919
Net interest expense:		
Interest expense	14,491,401	12,877,158
Interest income	(14,210,541)	(9,105,558)
	22,823,935	**33,662,519**
Reported in other comprehensive income		
Remeasurement – actuarial losses (gains) arising from:		
Change in financial assumptions	38,329,253	(79,057,186)
Experience adjustment	(17,223,521)	(6,270,032)
Return on plan assets (excluding amounts included in net Interest expense)	6,938,035	16,591,869
	28,043,767	**(68,735,349)**

Amounts recognized in other comprehensive income were included within item that will not be reclassified subsequently to the statement of income.

In determining the amounts of post-employment defined benefit obligation, the following significant actuarial assumptions were used:

	2023	2022
Discount rates	6.20%	7.40%
Expected rate of salary increases	6.00%	6.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 65 is 16 years.

These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero-coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

Risks Associated with the Retirement Plan

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan assets are significantly invested in cash and cash equivalents, debt and equity securities. Due to the long-term nature of the plan obligation, a level of continuing investments in equity securities is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(c) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described in the next page.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation:

		Impact on Retirement Benefit Obligation	
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2023			
Discount rate	+/-0.50%	(17,111,335)	18,982,685
Salary growth rate	+/-0.50%	18,114,828	(16,509,205)
December 31, 2022			
Discount rate	+/-0.50%	(13,508,039)	14,932,722
Salary growth rate	+/-0.50%	14,385,944	(13,140,862)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

(ii) Asset-liability Matching Strategies

The overall investment policy and strategy of the retirement plan is based on the Bank's suitability assessment, as provided by its Trust Banking Group of the parent bank, in compliance with the BSP requirements.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P31.84 million based on the latest actuarial valuation. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about five to 16 years' time when a significant number of employees is expected to retire.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 16 years.

The Bank expects to contribute P28.16 million to the retirement plan in 2024.

23.3 Retirement Benefits of Key Management Personnel

The Bank's retirement benefits are covered by the parent bank in as much as the officers and employees of the Bank are seconded. The parent bank has separate funded contributory defined contribution retirement plan. Under the retirement plan, all concerned officers and employees are entitled to cash benefit after satisfying certain age and service requirements.

24. MISCELLANEOUS INCOME

This account consists of:

	Note	2023	2022
Recovery of Written off Accounts		3,007,378	3,079,388
Bancassurance Income		2,250,000	2,738,050
Gain on sale of FA-FVOCI		363,646	541,700
Gain on sale of bank premises, furniture, fixtures and equipment	13	252,229	7,678,813
Rental income		83,500	214,640
Others		1,888,193	8,110,736
		7,844,946	**22,363,327**

Others includes income on checkbook re-order amounting to P1.78 million and P1.19 million in 2023 and 2022, respectively.

25. MISCELLANEOUS EXPENSES

This account consists of:

	2023	2022
Communications	37,929,481	31,657,144
Fines, penalties and other charges	16,376,327	25,166,406
Commission fees	9,256,730	15,856,941
Stationery and supplies used	8,077,835	5,266,768
Banking and supervision fees	6,256,449	5,394,773
Semi-Expendable Items	5,766,312	3,499,457
Freight expenses	5,437,079	2,991,966
Appraisal expenses	2,112,818	2,654,742
Advertising and publicity	765,268	817,225
Others	2,972,273	2,055,517
	94,950,572	**95,360,939**

Others include membership fees and dues, periodicals and magazines subscriptions.

26. TAXES

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as Taxes and licenses under Other Operating Expenses section of the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (DST). The Bank's liability for GRT and DST is based on the related regulations issued by the authorities.

Provision for income tax includes corporate income tax, as discussed in the succeeding sections, final taxes paid at the rate of 20 per cent, which is final withholding tax on gross interest income from government securities and other deposit substitutes.

Under current tax regulations, the regular corporate income tax (RCIT) rate applicable is 25 per cent. Interest allowed as deductible expense is reduced by an amount equivalent to certain percentage of interest income subject to final tax. Minimum corporate income tax (MCIT) on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against future regular income tax liability for the next three consecutive years. In addition, any net operating loss carry over is allowed as a deduction from taxable income in the next three years.

The components of tax expense as reported in the statements of income are as follows:

	2023	2022
Reported in statement of income:		
Current tax expense:		
RCIT at 25%	0	3,965,554
Final tax at 20 per cent	30,377,916	23,770,779
	30,377,916	27,736,333
Deferred tax income relating to origination and reversal of temporary differences	12,806,254	(10,531,155)
	43,184,170	**17,205,178**
Reported in other comprehensive loss		
Deferred tax income relating to origination and reversal of temporary differences	**7,010,942**	**(17,183,837)**

The Bank is subject to the MCIT which is computed at 1.00 per cent for the period January 1, 2023 until June 30, 2023 and 2.00 per cent for the period of July 1, 2023 to December 31, 2023 of gross income net of allowable deductions, as defined under the tax regulations or to RCIT, whichever is higher.

Details of outstanding excess MCIT as at December 31 are as follows:

Year Incurred	Amount	Utilized	Expired	Balance	Expiry Year
2022	2,691,324	0	0	2,691,324	2025
2023	8,587,517	0	0	8,587,517	2026
	11,278,841	**0**	**0**	**11,278,841**	

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense attributable to continuing operations follows:

	2023	2022
Tax on pretax profit at 25 per cent	19,135,531	13,690,961
Adjustments for income subjected to lower income tax rates	(7,594,480)	(5,942,695)
Tax effects of:		
NOLCO	22,713,279	0
Non-deductible expense	11,216,044	8,961,551
Non-taxable income	(2,492,379)	495,361
	43,184,170	**17,205,178**

The Bank reported a taxable loss for the year ending December 31, 2023. Details of Net Operating Loss Carry Over as at December 31 is presented as follows:

Inception	Amount	Utilized	Expired	Balance	Expiry Year
2023	90,853,116	0	0	90,853,116	2026

The components of the net deferred tax assets are as follows:

	Statements of Financial Position		Statements of Income		Statements of Comprehensive Income	
	2023	2022	2023	2022	2023	2022
Deferred tax assets:						
Allowance for impairment	577,111,663	646,312,071	(11,125,806)	4,198,308	0	0
Accumulated depreciation on investment properties	53,000,122	49,387,497	3,612,625	6,579,568	0	0
Post-employment defined benefit obligation	8,435,292	948,852	475,499	0	7,010,942	(17,183,837)
Unrealized losses on mark to market of FVTPL	(851,626)	2,095,808	(2,947,434)	1,954,321	0	0
Lease Liabilities	22,137,705	20,589,254	1,548,451	(16,891,704)	0	0
Unearned Bancassurance	8,306,593	8,869,093	(562,500)	(684,513)	0	0
Excess MCIT	11,278,841	2,691,324	0	0	0	0
	679,418,590	730,893,899	(8,999,165)	(4,844,020)	7,010,942	(17,183,837)
Deferred tax liabilities:						
Right –of-use asset	(18,114,607)	(15,687,514)	(2,427,093)	13,071,995	0	0
Accumulated unrealized gain on foreclosure	(1,078,253)	(59,041,224)	(111,631)	3,564,524	0	0
Past service cost	(3,258,421)	(1,990,056)	(1,268,365)	(1,261,344)	0	0
	(22,451,281)	(76,718,794)	(3,807,089)	15,375,175	0	0
Net Deferred Tax Assets	**656,967,309**	**654,175,105**				
Deferred Tax Income			**(12,806,254)**	**10,531,155**	**7,010,942**	**(17,183,837)**

In **2023 and 2022**, the Bank opted to claim itemized deductions in computing for its income tax due.

27. EQUITY

27.1 Capital Stock

As at December 31, 2023 and 2022, the Bank has a total authorized capital stock consisting of 8,000,000 shares at P 100 par value per share. As of those dates, total issued and outstanding shares consists of 7,172,490.27 shares amounting to P717.25 million. There were no movements in the paid-up capital and issued for both years.

On July 9, 2014, the Bank's BOD approved the declaration of cash dividend amounting to P1.00 billion or P139.72 per share payable to stockholders of record as at December 31, 2013. Such cash dividend declaration was approved by the BSP on October 28, 2014.

On November 27, 2017, the Bank's BOD approved the declaration of cash dividend amounting to P500.00 million to stockholders of record as at December 31, 2016 and is to be paid in two tranches on December 15, 2018 for the amount of P250.00 million and on December 15, 2019 for the amount of P250.00 million. No dividends were declared for 2023.

On January 4, 2021, the Bank received a letter dated 20 November 2020 from the Governance Commission for Government-Owned and Controlled Corporation (GCG) categorizing the UCPB Savings Bank (UCPBS) as a Government Financial Institution (GFI), and thus covered by Republic Act No. 9656 (Dividends Law)

On February 23, 2021, UCPBS wrote to the Department of Finance (DOF) requesting that UCPBS be exempted from declaring and remitting at least 50 per cent of its annual net earnings as cash, stock, or property dividends to the National Government on the followings grounds pursuant to 2016 Implementing Rules and Regulations (2016 IRR) issued by the DOF:

First, the IRR provides that the rules shall apply to all Government-Owned or Controlled Corporations[1] ("GOCCs"), which shall include financial institutions owned or controlled by the National Government but shall exclude Acquired Asset Corporations[2]. The Bank submits that UCPBS is an Acquired Asset Corporation, and thus excluded from the GOCCs required to declare and remit dividends to the National Government.

Second, Section 7 (b) of the IRR allows a downward adjustment in the Dividend rate below the minimum 50 per cent in the following cases: (i) where there is a presence of a deficit as reflected in the GOCC's latest Statement of Equity; (ii) where the GOCC's viability or the purpose for which the GOCC has been established will be impaired by the payment of the required Dividends; (iii) where the declaration and remittance of Dividends at the minimum Dividend rate will result in a breach in minimum regulatory requirements (e.g. capital level and ratios as may be required by BSP); and, (iv) for GOCCs governed by the

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[1] "Government-Owned or -Controlled Corporations ("GOCCs")", refer to corporations organized as a stock or non-stock corporation vested with functions relating to public needs, whether governmental or proprietary in nature, and owned by the National Government directly or through its instrumentalities either wholly or, where applicable as in the case of stock corporations, to the extent of at least 51% of its capital stock. This term shall also include financial institutions owned or controlled by the National Government but shall exclude acquired asset corporations, state universities and colleges. (Sec. 3 G)

[2] Acquired Asset Corporation" refers to a corporation: (1) which is under private ownership, the voting or outstanding shares of which were: (i) conveyed to the Government or to a government agency, instrumentality or corporation in satisfaction of debts whether by foreclosure or otherwise, or (ii) duly acquired by Government through a final judgment in sequestration proceedings; or (2) which is a subsidiary of a government corporation organized exclusively to own or manage, or lease, or operate specific physical assets acquired by a government financial institution in satisfaction of debts incurred therewith, and which in any case by law or enunciated policy is required to be disposed of to private ownership within a specified period of time. (Sec. 3 B)

Batas Pambansa Blg. 68 (or the Corporation Code of the Philippines), where declaration and remittance of Dividends at the minimum Dividend rate exceeds the unrestricted retained earnings of the GOCC.

On March 15, 2023, the DOF sent a letter to the Bank requesting for necessary information relating to UCPBS's request for exemption on the 50% dividend remittance to the National Government (NG) for its 2021 and 2022 Net Earnings pursuant to Republic Act 7656. The Bank provided to DOF the requested necessary reports including UCPBS Capital Adequacy Ratio (CAR) and Basel Leverage reports (BLR) for quarters of 2022 last March 22, 2023.

On March 26, 2024, DOF requested additional necessary information including 2023 Actual CAR and BLR reports and projected 2024 CAR and BLR from UCPBS which were submitted by the Bank last April 4, 2024.

To date, The Bank is still waiting for a reply from the DOF on the Bank's request for such exemption.

Unclaimed dividends included in Other Liabilities account amounted to P21.80 million as of December 31, 2023 and 2022. (see Note 21).

As at December 31, 2023 and 2022, the Bank has 174 stockholders owning 100 or more shares each of the Bank's capital stock respectively.

27.2 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statement of changes in equity at their aggregate amount under Revaluation Reserves account are shown below.

	Financial Asset at FVOCI	**Post-employment Defined Benefit Obligation**	**Total**
	(see Note 11.2)	(see Note 23.2)	
Balance as of January 1, 2023	(4,803,455)	(8,294,037)	(13,097,492)
Remeasurements of defined benefit post-employment plan	0	(28,043,767)	(28,043,767)
Fair value loss on financial assets at FVOCI	10,944,936	0	10,944,936
Other comprehensive loss before tax	10,944,936	(28,043,767)	(17,098,831)
Tax expense	0	7,010,942	7,010,942
Other comprehensive loss after tax	10,944,936	(21,032,825)	(10,087,889)
Balance as of December 31, 2023	**6,141,481**	**(29,326,862)**	**(23,185,381)**
Balance as of January 1, 2022	0	(59,845,549)	(59,845,549)
Remeasurements of defined benefit post-employment plan	0	68,735,349	68,735,349
Fair value loss on financial assets at FVOCI	(4,803,455)	0	(4,803,455)
Other comprehensive loss before tax	(4,803,455)	68,735,349	63,931,894

	Financial Asset at FVOCI	Post-employment Defined Benefit Obligation	Total
	(see Note 11.2)	(see Note 23.2)	
Tax expense	0	(17,183,837)	(17,183,837)
Other comprehensive loss after tax	(4,803,455)	51,551,512	46,748,057
Balance as of December 31, 2022	**(4,803,455)**	**(8,294,037)**	**(13,097,492)**

27.3 Surplus Reserves

Pursuant to the requirements of the BSP under Circular No. 1011, the Bank shall recognize general loan loss provisions equivalent to one per cent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed allowance for ECL on those exposures is less than one per cent of general loan loss provisions required, the deficiency is recognized through appropriation from the Bank's available surplus. As at December 31, 2023 and 2022 the Bank's appropriated surplus pertaining to the General loan loss provisions (GLLP) amounted to P11.30 million and P14.06 million, respectively.

28. RELATED PARTY TRANSACTIONS

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

The account balances with respect to related parties included in the financial statements are as follows:

		Elements of Transactions				
		Statements of Financial Position		Statements of Income		
Related Party	Nature of Transaction	2023	2022	2023	2022	Terms and Conditions
Parent Bank						
	Due from other banks	130,607,883	176,339,361	0	0	on-demand; 0.25%; unsecured
	Interest Income	0	0	42,010	52,460	1-7days; 2.53125% to 2.5625%; unsecured
	Interest Expense	0	0	152,165	60,433	1-4 days; 2.25%-2.28% unsecured
	Compensation & fringe benefits	0	0	8,143,657	9,932,952	non-interest bearing; unsecured
	Rent expense	0	0	9,293,247	2,938,390	non-interest bearing; unsecured
United Coconut Planters Life Assurance Corporation						
	Deposit liabilities	742,509	2,373,850	0	0	on-demand; interest bearing; unsecured
	Interest expense	0	0	358	825	on-demand; interest bearing; unsecured

		Elements of Transactions				
		Statements of Financial Position		Statements of Income		
Related Party	**Nature of Transaction**	**2023**	**2022**	**2023**	**2022**	**Terms and Conditions**
Cocogen Insurance. Inc.						
	Deposit liabilities	2,054,032	2,524,705	0	0	on-demand; interest bearing; unsecured
	Interest expense	0	0	3,205	2,991	on-demand; interest bearing; unsecured

Details of the foregoing transactions follow:

28.1 Bank Deposits

The Bank has deposits accounts with the parent bank amounting to P130.61 million and P176.33 million as at December 31, 2023 and 2022, respectively, which are presented as part of Due from Other Banks in the statements of financial position. These bank deposits earn interest at the parent bank's regular savings account rate of 0.25 per cent. These deposits made substantially on the same terms as transactions entered into with other third-party individuals and businesses of comparable risks. The related interest income from these deposits amounted to P42,010 and P52,460 in 2023 and 2022, respectively.

28.2 Expenses Paid to the Parent Bank

a. The Bank incurs compensation and fringe benefits expenses for its seconded employees from the parent bank who occupy key management positions at the Bank. In 2023 and 2022, the parent charged the Bank expenses amounting to P8.14 million and P9.93 million, respectively.

b. The Bank incurred rent expense amounting to P9.29 million and P2.93 million in 2023 and 2022 respectively, for the lease of Head Office premises to the parent bank.

28.3 Key Management

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*. The remuneration of directors and other members of key management personnel included in the statements of income follow:

	2023	**2022**
Short-term benefits	8,143,657	7,932,395
Post-employment benefits	0	2,000,557
	8,143,657	**9,932,952**

Deposit liabilities to key management personnel amounted to P10.36 million and P10.64 million for 2023 and 2022, respectively. Interest expense incurred on the deposit liabilities for 2023 and 2022 amounted to P152,165 and P60,443, respectively.

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

28.4 Transactions with 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 the said circular, a reporting entity shall disclose information about any transaction with a related party (retirement plan, in this case) and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

The Bank's retirement plan for its defined benefit post-employment plan maintained for qualified employees, is administered and managed by the LBP Trust Banking under a trust agreement. The carrying amount and the composition of the plan assets as of December 31, 2023 and 2022, as well as the amounts contributed by the Bank, are shown in Note 23.2.

The total deposits of the retirement fund of the Bank amount to P15.42 million as of December 31, 2023 and P30.25 million for 2022. The related interest expense recognized by the Bank from these deposits amounted to P1.09 million and P1.02 million for 2023 and 2022, respectively.

The retirement fund neither provides surety for any obligation of the Bank nor its investments covered by any restrictions or liens.

29. COMMITMENTS AND CONTINGENT LIABILITIES

The following are the significant commitments and contingencies involving the Bank:

a. In the normal course of the Bank's operations, there are outstanding commitments and contingent liabilities, such as guarantees and commitments to extend credit, which are not reflected in the financial statements. (See Note 31.7 for details)

b. There are other commitments, guarantees and contingent liabilities that arise in the normal course of the Bank's operations that are not reflected in the financial statements. The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable.

As of December 31, 2023 and 2022, management is of the opinion that losses, if any, from the foregoing items will not have a material effect on the Bank's financial statements.

30. OTHER MATTERS

On January 23, 2023, UCPBS received the Authorization to implement the Compensation and Position Classification System (CPCS) from the Governance Commission for Government-Owned and Controlled Corporations (GCG).

The implementation of CPCS is in accordance with Section 8 of Executive Order (EO) No 150, s. 2021, and Section 4 of the CPCS Implementing Guidelines No. 2021-01.

Based on UCPBS' nature of operations, financials, and full-time equivalent positions, below is the summary of its CPCS classification and tier.

Category	3
GOCC Grade	18
Tier	CPCS financials fall below the cut-off for the lowest Tier for Category 2 and 3 GOCCs
Applicable CPCS Salary Structure	Category 1 Salary Structure

On March 23, 2023, the Board of Directors approved the implementation of the Bank's compliance with Section 8 of EO 150, s. 2021 and Section 4 of the CPCS Implementing Guidelines No. 2021-01.

31. SUPPLEMENTARY INFORMATION REQUIRED BY THE BANGKO SENTRAL NG PILIPINAS

Presented below are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks (MORB) to be disclosed as part of the notes to financial statements based on BSP Circular 1074, *Amendments to Regulations on Financial Audit of Banks*.

31.1 Selected Financial Performance Indicators

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

	2023	2022
Return on average equity	2.23%	2.90%
Net interest margin	5.78%	5.35%
Return on average assets	0.35%	0.34%

The Bank's financial performance indicators are computed based on regulatory capital submitted to the BSP as required by Subsection X190.4*, Disclosure Requirement in the Notes to the Audited Financial Statements*, of the Manual of Regulations for Banks.

31.2 Capital Instruments Issued

As of December 31, 2023, the Bank has no capital instruments considered in the computation of the Bank's regulatory and qualifying capital in accordance with Circular 781, *Basel III Implementing Guidelines on Minimum Capital Requirements, which may include*, instruments recorded as part of equity or a financial liability qualifying as Tier 2 capital.

31.3 Significant Credit Exposures as to Industry / Economic Sector

As at December 31, 2023 and 2022, the information on the concentration of loans and discounts as to industry follows (in thousands, except for percentages):

	2023		2022	
	Amount	%	Amount	%
Loans to individuals primarily for personal use purposes	4,395,688	34%	4,265,668	33%
Real estate activities	3,944,668	31%	4,084,728	32%
Wholesale and retail trade, repair of motor vehicles	2,065,992	16%	1,883,946	14%
Financial and insurance activities	747,497	6%	584,507	5%
Agriculture, forestry and fishing	212,402	2%	344,744	3%
Education	274,426	2%	344,412	3%
Transportation and storage	154,154	1%	179,591	1%
Construction	122,821	1%	141,508	1%
Others	914,299	7%	1,011,475	8%
	12,831,947	**100%**	**12,840,579**	**100%**

The maturity profile of loans and receivables is disclosed in Note 6.3.

31.4 Credit Status of Loans

The breakdown of receivable from customers as to status is shown below (in thousands).

	2023		
	Performing	**Non-performing**	**Total Loan Portfolio**
Gross Carrying Amount			
Corporate	3,105,289	2,131,150	5,236,439
Consumer	6,229,629	1,361,917	7,591,546
Allowance for ECL	(356,793)	(1,542,764)	(1,899,557)
Net Carrying Amount	**8,978,125**	**1,950,303**	**10,928,428**

	2022		
	Performing	**Non-performing**	**Total Loan Portfolio**
Gross Carrying Amount			
Corporate	2,940,338	2,152,958	5,093,296
Consumer	6,216,137	1,526,127	7,742,264
Allowance for ECL	(304,833)	(1,640,756)	(1,945,589)
Net Carrying Amount	**8,851,642**	**2,038,329**	**10,889,970**

As at December 31, 2023 and 2022, Non-performing loans (NPLs) not fully covered by allowance for credit losses follow:

	2023	2022
Total NPLs	3,493,067,511	3,679,084,443
NPLs fully covered by allowance for credit and impairment losses	(943,045,720)	(1,214,920,334)
	2,550,021,791	**2,464,164,109**

Under banking regulations, NPLs shall, as a general rule, refer to loan accounts whose principal and/or interest remain unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three or more installments are in arrears. In the case of receivables that are payable in daily, weekly or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations [i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches 10 per cent of the total receivable balance]. Restructured receivables, which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs.

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.

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

Restructured receivables by contractual maturity dates are analyzed as follows:

	2023	2022
Due within one year	46,275,037	55,974,582
Due beyond one year but not beyond five years	590,677,763	550,145,373
Due beyond five years	546,624,871	509,022,177
	1,183,577,671	**1,115,142,132**

Restructured receivables earn annual interest rates ranging from 7.00 per cent to 30.00 per cent both in 2023 and 2022.

31.5 Information on related party loans broken down as follows:

In the ordinary course of business, the Bank can enter into loan and other transactions with the parent bank and with certain directors, officers, stockholders, and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks and were subject of prior Board approval and entailing BSP reportorial requirements.

Existing BSP regulations also limit the total amount of credit exposure to each of the Bank's DOSRIs, at least 70 per cent 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 per cent of its total loan portfolio, whichever is lower, with any unsecured portion thereof not exceeding the lower between 30 per cent 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	2022
Total outstanding DOSRI loans	6,615,836	14,390,898
Unsecured DOSRI loans	6,376,173	13,980,822
Percent of DOSRI loans to total loans	0.05%	0.11%
Percent of unsecured DOSRI loans to total DOSRI loans	96.38%	97.15%
Percent of past due DOSRI loans to total DOSRI loans	16.18%	7.97%
Percent of non-performing DOSRI loans to total DOSRI loans	16.12%	6.90%

In 2023 and 2022, total interest income on DOSRI loans amounted to P0.68 million and P1.26 million, respectively.

31.6 Secured Liabilities and Assets Pledged as Security

As of December 31, 2023, the Bank has no assets pledged as security for liabilities.

31.7 Nature and Amount of contingencies and commitments

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

	2023	2022
Late deposits	1,186,191	2,362,450
Items held for safekeeping	46,601	50,639
Others	8,018	7,778

Late deposits are payments or deposits received after the prescribed clearing cut-off time.

32. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

The supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing Revenue Regulation No. 15-2010 (RR) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are as follows:

(a) Gross Receipts Tax

In lieu of the value-added tax, the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries pursuant to Section 121 of the Tax Code.

The Bank reported total GRT amounting to P60.90 million in 2023 and is shown as part of Taxes and Licenses in the 2023 statement of income [see Note 32(e)].

(b) Taxes on Importation

The Bank did not have any importations in 2023.

(c) Excise Taxes

The Bank does not have excise taxes accrued since it did not have any transactions subject to excise tax in 2023.

(d) Documentary Stamp Tax

Documentary stamp taxes (DST) paid and accrued in 2023 is presented below.

On loan documents	58,647,171
On mortgages, pledges, and deed of trust	1,902,100
On leases and other hiring agreements	88,808
On telegraphic transfer	51
	60,638,130

For the year ended December 31, 2023, DST affixed amounted to P60.63 million, of which P29.63 million were charged to the Bank's client; hence, not reported as part of taxes and licenses [(see Note 32.(e)].

(e) Taxes and Licenses

The details of the taxes and licenses in 2023 are as follows:

	Note	
GRT	32(a)	60,901,151
DST		31,003,536
License and permit fees		7,095,982
Fringe benefit tax		386,147
Others		146,573
		99,533,389

(f) Withholding Taxes

The details of total withholding taxes in 2023 are shown below.

Compensation and benefits	31,304,876
Expanded	6,278,272
Business Tax	9,437,206
Final	38,142,294
	85,162,648

(g) Deficiency Tax Assessments and Tax Cases

As at December 31, 2023 the Bank does not have any final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.