



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, 2024 and 2023

EXECUTIVE SUMMARY

INTRODUCTION

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 expiring on October 18, 2012, for another 50 years. On January 25, 2012, the Philippine Securities and Exchange Commission (SEC) approved such amendment.

On January 4, 2021, the Bank received a letter dated November 20 2020 from the Governance Commission for Government Owned or Controlled Corporations (GCG) classifying UCPBS as a Government Owned or Controlled Corporation (GOCC)/Government Financial Institution (GFI), now covered by Republic Act (RA) No. 10149.

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 issued, whereby the latter bank shall emerge as the surviving entity, subject to the requisite approvals from the SEC and to the conditions and limitations under RA Nos. 11524 and 11232 or the Revised Corporation Code of the Philippines.

With the merger of UCPB and LBP on March 1, 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.

On August 6, 2024, Memorandum Order (MO) No. 28 titled “Approving the Privatization of United Coconut Planters Bank – Savings Bank (UCPB-SB)” was issued. The MO directs the LBP to dispose all its shares of stock in UCPBS through sale to any qualified private person, natural or juridical, subject to pertinent laws, rules and regulations, guidelines, and requirements of concerned government agencies. The LBP and GCG are also directed to ensure that the Privatization of UCPBS complies with the following laws, rules and regulations, among others: a) RA No. 11232 or the “Revised Corporation Code of the Philippines” on the appraisal rights of the minority stockholders, b) RA No. 7653, as amended by RA No. 11211 or the New Central Bank Act on securing the prior approval of the Bangko Sentral ng Pilipinas, c) RA No. 10667 or the Philippine Competition Act on compulsory notification for mergers and acquisitions, as may be applicable, and d) Such other applicable laws, rules and regulations.

On April 25, 2025, LBP undertook the initial steps to the privatization by opening offers for the negotiated bid where one bidder met the required qualifications and bid amount. The next steps would include seeking approvals from the BSP and the Philippine Competition Commission.

As of December 31, 2024, the Bank operates 49 branches with 10 branch lite offices and 4 lending offices. The Bank had 758 regular and 2 Contract of Service/Job Order employees or a total of 760 including the President.

The Bank's registered office and principal place of business is located 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.

SCOPE OF AUDIT

The audit covered the examination, on a test basis, of UCPBS transactions and accounts for the period January 1 to December 31, 2024 to enable us to express an opinion on the fairness of presentation of the financial statements for the year ended December 31, 2024 and 2023 in accordance with the International Standards of Supreme Audit Institutions. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2024	2023	Increase (Decrease)
Assets	17,641,486,829	17,594,651,979	46,834,850
Liabilities	15,134,719,929	15,147,857,750	(13,137,821)
Equity	2,506,766,900	2,446,794,229	59,972,671

II. Comparative Results of Operations

Particulars	2024	2023	Increase (Decrease)
Revenues	1,393,747,719	1,272,169,897	121,577,822
Interest expense	(303,491,021)	(222,329,535)	(81,161,486)
Impairment losses	0	(243,240)	243,240
Other operating expenses	(976,542,097)	(972,230,297)	(4,311,800)
Profit before tax	113,714,601	77,366,825	36,347,776
Tax expense	(50,364,295)	(43,184,170)	(7,180,125)
Net profit	63,350,306	34,182,655	29,167,651
Other comprehensive income	(3,377,635)	(10,087,889)	6,710,254
Total comprehensive income	59,972,671	24,094,766	35,877,905

III. Comparative Budget and Actual Expenditures

	2024		2023	
	Approved Budget	Expenditures	Approved Budget	Expenditures
Personal Services	526,952,070	457,713,975	503,406,716	460,267,715
Maintenance and Other Operating Expense	591,064,704	521,236,044	702,427,290	405,745,385
Capital Outlay	269,548,671	70,442,707	326,649,846	42,230,578
Total	1,387,565,445	1,049,392,726	1,532,483,852	908,243,678

AUDITOR'S OPINION

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of the UCPBS as at December 31, 2024 and 2023.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The recognition of 414 properties acquired through merger at a nominal amount of P1.00 each, without adequate assessment of their identifiability and fair value as of the acquisition date, is not in accordance with Paragraphs 11 and 18 of Philippine Financial Reporting Standard (PFRS) 3, thereby affecting the faithful representation of the Investment Property account balance of P830,703,390 as at December 31, 2024 in the financial statements.

We recommended and Management agreed to:

- a) Direct the Credit Appraisal and Investigation Department to perform a comprehensive reassessment and fair value determination of properties recorded at nominal amounts and adjust the carrying amounts, as appropriate, to ensure alignment with the initial recognition and subsequent measurement requirements under PFRS 3 and Philippine Accounting Standard 40; and
- b) Instruct the Loans Documentation Department to establish and maintain a centralized property valuation matrix that consolidates, for each investment property, the following: (a) legal ownership documents (e.g., titles, deeds, tax declarations); (b) acquisition source and valuation approach; (c) appraisal values, dates, and basis; and (d) justification for any nominal or provisional amounts used.

2. The 30 Sales Contract Receivable accounts with an aggregate balance of P143.90 million as at December 31, 2024, which remained long outstanding and in default were not reclassified as Real and Other Properties Acquired (ROPA) due to absence of a definitive timeline for initiating the cancellation of Sales Contract under the Section 7 of UCPBS ROPA Manual, in conjunction with the non-enforcement of the rescission clause under Section 4 of its Contract to Sell, thereby affecting the UCPBS's operating effectiveness on processing cancellation of Sales Contract in the events of default.

We recommended and Management agreed to designate the Special Asset Management Department to:

- a) Review and amend the ROPA Manual to incorporate a definitive timeline and escalation protocol for initiating rescission of Sales Contract following default. This should include specific triggers such as number of days in arrears for issuing the notice of cancellation, along with designated accountability for monitoring and enforcing compliance;
- b) Establish a monitoring mechanism for delinquent Sales Contract Receivables to ensure timely enforcement of rescission provisions; and
- c) Rescind/cancel Sales Contract Receivables in accordance with ROPA Manual and Section 4 of the UCPBS Contract to Sell, including the reclassification as ROPA, where warranted.

SUMMARY OF SUSPENSIONS, DISALLOWANCES AND CHARGES

There were no balances of audit suspensions, disallowances and charges as of year end.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the nine audit recommendations embodied in the Calendar Years (CYs) 2022 and 2023 Annual Audit Reports, seven were implemented, and two were not implemented.

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PART I

AUDITED FINANCIAL STATEMENTS

PART II

OBSERVATIONS AND RECOMMENDATIONS

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

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, 2024 and 2023, 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, 2024 and 2023, 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, 2024 and 2023 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 PFRSSs, 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


ALTHEA T. ROSAS-LADOCES
 OIC-Supervising Auditor

June 23, 2025



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, 2024 and 2023, 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

June 23, 2025

UCPB Savings Bank, Inc.
(A subsidiary of Land Bank of the Philippines)
STATEMENTS OF FINANCIAL POSITION
As at December 31, 2024 and 2023
(Amounts in Philippine Peso)

	Note	2024	2023
ASSETS			
Cash and other cash items	10	448,385,451	904,068,361
Due from Bangko Sentral ng Pilipinas	10	1,265,855,021	971,902,862
Due from other banks	10	304,734,831	169,166,895
Securities Purchased under Resale Agreements	10	0	499,259,691
Financial assets at fair value through profit or loss	11.1	352,837,402	198,597,985
Financial assets at fair value through other comprehensive income	11.2	1,403,787,234	1,308,986,224
Financial assets at amortized cost, net	11.3	308,128,770	308,964,203
Loans and receivables, net	12	11,800,709,452	11,479,220,450
Bank premises, furniture, fixtures and equipment	13	251,552,876	176,416,427
Investment properties, net	15	730,136,069	786,260,711
Assets held for sale, net	16	19,190,180	13,394,635
Intangible and other resources, net	17	102,991,245	121,446,226
Deferred tax assets, net	26	653,178,298	656,967,309
TOTAL ASSETS		17,641,486,829	17,594,651,979
LIABILITIES AND EQUITY			
Deposit liabilities	19	14,537,391,427	14,549,739,947
Accrued interest, taxes and other expenses	20	113,945,484	129,812,024
Income tax payable		2,888,352	2,842,346
Retirement liability	23.2	30,108,935	31,839,175
Other liabilities	21	450,385,731	433,624,258
TOTAL LIABILITIES		15,134,719,929	15,147,857,750
Capital stock	27.1	717,249,027	717,249,027
Additional paid-in capital	27.1	389,508,285	389,508,285
Revaluation reserves	27.2	(26,563,016)	(23,185,381)
Surplus reserves	27.3	3,458,283	11,400,803
Surplus		1,423,114,321	1,351,821,495
EQUITY	27	2,506,766,900	2,446,794,229
TOTAL LIABILITIES AND EQUITY		17,641,486,829	17,594,651,979

The Notes on pages 10 to 96 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, 2024 and 2023
(Amounts in Philippine Peso)

	Note	2024	2023
Interest income			
Loans and receivables	12	938,570,202	883,708,439
Trading and investment securities	11.4	106,745,861	73,567,347
Due from BSP and other banks	10	34,932,279	45,790,852
Securities purchased under resale agreements	10	30,601,833	25,756,522
		1,110,850,175	1,028,823,160
Interest expense			
Deposit liabilities	19	(293,321,610)	(217,323,344)
Interest expense - leases	14.3	(10,169,411)	(5,006,191)
		(303,491,021)	(222,329,535)
Net interest income		807,359,154	806,493,625
Impairment losses		0	(243,240)
Net interest income after impairment losses		807,359,154	806,250,385
Other operating income			
Service fees		231,758,765	212,350,562
Gain on sale and foreclosure of assets - net	15,16	45,337,603	19,507,302
Trading and securities gains/(losses) - net	11.1	(398,779)	3,643,927
Miscellaneous	24	6,199,955	7,844,946
		282,897,544	243,346,737
Other operating expenses			
Salaries and employee benefits	23.1	(457,337,384)	(490,629,328)
Depreciation and amortization	12,15, 17	(123,085,099)	(105,560,435)
Taxes and licenses	32	(111,591,260)	(99,533,389)
Occupancy		(67,680,774)	(64,571,947)
Security, messengerial and janitorial		(55,548,468)	(53,017,841)
Insurance		(35,423,638)	(32,183,122)
Transportation and travel		(11,494,164)	(10,635,942)
Litigation		(11,238,794)	(14,872,058)
Management and other professional fees		(3,518,038)	(4,878,670)
Entertainment, amusement and recreation		(1,577,424)	(1,396,993)
Miscellaneous	25	(98,047,054)	(94,950,572)
		(976,542,097)	(972,230,297)
Profit before tax		113,714,601	77,366,825
Tax expense	26	(50,364,295)	(43,184,170)
Net profit		63,350,306	34,182,655

The Notes on pages 10 to 96 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, 2024 and 2023
(Amounts in Philippine Peso)

	Note	2024	2023
NET PROFIT		63,350,306	34,182,655
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	1,297,680	(21,032,825)
Net unrealized gain/(loss) on financial assets at fair value through other comprehensive income	11.2	(4,675,315)	10,944,936
Other comprehensive loss		(3,377,635)	(10,087,889)
TOTAL COMPREHENSIVE INCOME		59,972,671	24,094,766

The Notes on pages 10 to 96 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, 2024 and 2023
(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, 2024						
As previously reported	717,249,027	389,508,285	(23,185,381)	11,400,803	1,351,821,495	2,446,794,229
Appropriation during the year				(7,942,520)	7,942,520	0
Other comprehensive loss			(3,377,635)		0	(3,377,635)
Net income for the year					63,350,306	63,350,306
Balance at December 31, 2024	717,249,027	389,508,285	(26,563,016)	3,458,283	1,423,114,321	2,506,766,900
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 income			(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

The Notes on pages 10 to 96 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, 2024 and 2023
(Amounts in Philippine Peso)

	Note	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		1,108,558,338	1,042,955,502
Interest paid		(308,278,937)	(206,714,406)
Fees and commission received		231,758,765	212,350,562
Gain on financial assets and liabilities-FVPL	11.1	857,198	237,422
Miscellaneous Income		3,215,728	4,585,339
General and administrative expenses		(853,456,998)	(866,669,862)
Operating income before changes in operating assets and liabilities		182,654,094	186,744,557
Changes in operating assets and liabilities			
<i>(Increase)/Decrease in operating assets and liabilities</i>			
FA-Fair value through profit or loss		(155,495,395)	(51,758,831)
FA-Fair value through other comprehensive income		(99,476,325)	(706,639,679)
FA-Amortized Cost		835,433	5,750,305
Loans and receivable		(234,058,020)	(51,993,413)
Other Assets		(3,140,886)	29,810,044
<i>Increase/(Decrease) in operating assets and liabilities</i>			
Deposit Liabilities		(7,560,604)	523,178,482
Accrued taxes, interest and other expenses		(16,866,540)	(28,056,401)
Other Liabilities		35,713,835	4,467,100
Net Cash used from operations		(296,394,408)	(86,497,836)
Income Taxes Paid		0	0
Net cash used from operating activities		(296,394,408)	(86,497,836)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	13	(151,004,355)	(65,449,950)
Disposal of property and equipment		1,232,179	252,229
Addition to intangible and other assets	17	(25,084,764)	(16,700,362)
Net cash used in investing activities		(174,856,940)	(81,898,083)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease liabilities	14.3	(54,171,158)	(38,140,887)
Net cash used in financing activities		(54,171,158)	(38,140,887)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(525,422,506)	(206,536,806)
CASH AND CASH EQUIVALENTS AT JANUARY 1, 2024	10	2,544,397,809	2,750,934,615
CASH AND CASH EQUIVALENTS AT DECEMBER 31, 2024	10	2,018,975,303	2,544,397,809

The Notes on pages 10 to 96 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, 2024 AND 2023
(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 January 4, 2021, the Bank received a letter dated November 20, 2020 from the Governance Commission for Government Owned or Controlled Corporations (GCG) saying that UCPBS is a Government Owned or Controlled Corporation (GOCC)/Government Financial Institution (GFI) and is now covered by Republic Act (RA) No. 10149.

Under Section 3 of RA 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 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 is defined as:

(m) *Government Financial Institutions* 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 (BSP); 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)*

UCPBS 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 BSP, categorized as a thrift bank. On the basis of the above definitions, thus, UCPBS is a GFI.

On June 25, 2021, Executive Order No. 142, s 2021 titled “Approving the Merger of 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 SEC, and to the conditions and limitations under RA Nos. 11524 and 11232 or the Revised Corporation Code of the Philippines.

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.

On August 6, 2024, Memorandum Order No. 28 titled “Approving the Privatization of United Coconut Planters Bank – Savings Bank (UCPB-SB)” was issued. The privatization of UCPBS is hereby approved. Hence, LBP shall dispose of all its shares of stock in UCPBS through sale to any qualified private person, natural or juridical, subject to pertinent laws, rules and regulations, guidelines, and requirements of concerned government agencies. The LBP and GCG are also directed to ensure that the Privatization of UCPBS complies with the following laws, rules and regulations, among others: a) RA No. 11232 or the “Revised Corporation Code of the Philippines” on the appraisal rights of the minority stockholders, b) RA No 7653, as amended by RA No. 11211 or the “New Central Bank Act” on securing the prior approval of the BSP”, c) RA No 10667 or the “Philippine Competition Act” on compulsory notification for mergers and acquisitions, as may be applicable, and d) Such other applicable laws, rules and regulations.

With the Privatization of UCPBS, 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, 2024, 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 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 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, 2024, the remaining ACL balance for staggered booking is P108.93 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, 2024 (including the comparative financial statements as of and for the year ended December 31, 2023) were approved and authorized for issue by the Bank on June 23, 2025.

3. NEW OR REVISED STANDARDS

(a) Effective in 2024 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, 2024:

(i) PFRS 16 (Amendments), Leases – Lease Liability in a Sale and Leaseback. 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. 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.

(iii) PAS 1 (Amendments), Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

(b) *Effective beginning on or after January 1, 2025*

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) PAS 21 (Amendments), Lack of Exchangeability – *The Effects of Changes in Foreign Exchange Rates* (effective January 1, 2025). The amendments clarify when a currency is considered exchangeable into another currency, and how an entity estimates a spot rate for currencies that lack exchangeability. The amendments introduce new disclosures to help financial statement users assess the impact of using an estimated exchange rate.

(ii.) Amendments to PFRS 17, Initial Application of PFRS 17 and PFRS 9 -Comparative Information (effective for reporting periods beginning on or after January 1, 2025)

(iii.) PFRS 18, Presentation and Disclosure in Financial Statements, with focus on updates to statement of profit or loss (effective for annual periods beginning on or after January 1, 2027)

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 2024 and 2023 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 statement 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, 2024 and 2023, 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 16, 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, 2024 and 2023, 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, 2024 and 2023 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, 2024				
	Loans and Receivables	Loans and Advances to Banks (a)	Trading and Investment Securities (b)	Total
Real estate	3,811,412,373	0	0	3,811,412,373
Financial intermediaries	889,578,928	304,734,831	0	1,194,313,759
Philippine government	0	1,265,855,021	2,059,803,406	3,325,658,427
Others community, social and personal services	9,020,211,789	0	5,000,000	9,025,211,789
	13,721,203,090	1,570,589,852	2,064,803,406	17,356,596,348
Less allowance for credit and impairment losses	1,920,493,638	0	50,000	1,920,543,638
	11,800,709,452	1,570,589,852	2,064,753,406	15,436,052,710

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
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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, 2024				
Loans and discounts				
Corporate	5,354,797,391	5,058,124,027	296,673,364	5,058,124,027
Consumption	4,645,820,506	0	4,645,820,506	0
Real estate	2,971,878,743	5,389,134,221	(2,417,255,478)	2,971,878,743
Others	12,874,021	10,265,000	2,609,021	10,265,000
	12,985,370,661	10,457,523,248	2,527,847,413	8,040,267,770

	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

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

Credit Quality	ICRR System Grade	Description
	6	Watchlist
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):

	2024				2023
	Stage 1	Stage 2	Stage 3	Total	Total
Receivables from customers:					
Corporate loans:					
High Grade	0	0	0	0	0
Standard Grade	2,033,514,435	10,000,000	0	2,043,514,435	1,823,294,944
Substandard Grade	153,478,053	47,176,758	272,079,157	472,733,968	834,700,414
Unrated	306,408,487	5,914,861	0	312,323,348	323,217,393
Past due but not impaired	0	0	948,822,514	948,822,514	266,333,514
Impaired	0	0	1,577,403,126	1,577,403,126	1,992,406,467

	2024				2023
	Stage 1	Stage 2	Stage 3	Total	Total
	2,493,400,975	63,091,619	2,798,304,797	5,354,797,391	5,239,952,732
Consumer loans:					
High Grade	0	0	0	0	0
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	6,147,769,329	171,009,493	0	6,318,778,822	6,007,961,501
Past due but not impaired	3,582,637	3,522,345	925,839,223	932,944,205	277,689,491
Impaired	0	0	378,850,243	378,850,243	1,303,037,532
	6,151,351,966	174,531,838	1,304,689,466	7,630,573,270	7,588,688,524
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	226,226	0	0	226,226	282,782
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	226,226	0	0	226,226	282,782
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	109,934,746	0	143,902,782	253,837,528	204,122,046
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	109,934,746	0	143,902,782	253,837,528	204,122,046
Accrued interest receivables:					
High Grade	0	0	0	0	0
Standard Grade	12,054,868	92,083	0	12,146,951	10,573,142
Substandard Grade	2,826,344	1,108,765	7,216,205	11,151,314	58,343,487
Unrated	37,537,019	1,834,422	42,901	39,414,342	35,923,461
Past due but not impaired	26,190	0	20,095,312	20,121,502	5,062,390
Impaired	0	0	85,472,095	85,472,095	56,111,887
	52,444,421	3,035,270	112,826,513	168,306,204	166,014,367
Accounts receivables:					
High Grade	0	0	0	0	0
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	314,946,084	0	293,740	315,239,824	243,828,961
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	314,946,084	0	293,740	315,239,824	243,828,961
Bills Purchased:					
High Grade	0	0	0	0	0
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	2,173,517	0	0	2,173,517	3,306,140
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	2,173,517	0	0	2,173,517	3,306,140
Total	9,124,477,935	240,658,727	4,360,017,298	13,725,153,960	13,446,195,552

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, 2024 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	112,605,195	495,137,563	607,742,758
Corporate	49,969,079	898,853,434	948,822,513
Consumption	17,201,198	308,000,250	325,201,448
	179,775,472	1,701,991,247	1,881,766,719

(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 of December 31, 2024 and 2023.

The total fair value of collaterals of impaired loans and receivables amounted to P13.35 million and P2.48 billion as of December 31, 2024 and 2023, 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, 2024 and 2023, restructured loans amounted to P1.16 billion and P1.18 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, 2024 and 2023, restructured loans considered as NPL amounted to P697.38 million and

P746.88 million, respectively.

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

	2024	2023
Corporate	1,015,351,403	1,043,738,619
Consumption	45,568,415	100,887,943
Real estate	96,440,533	38,951,096
Others	12	12
	1,157,360,363	1,183,577,670

(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, 2024 and 2023 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 P1.16 billion and P1.18 billion as of December 31, 2024 and 2023, respectively. The related allowance for credit loss of such loans amounts to P186.60 million and P305.45 million as of the same dates, respectively.

Of the total outstanding restructured loans as of December 31, 2024, P160.14 million are due to impact of COVID-19 situation.

(b) Financial Reliefs Mandated by the Government

In compliance with RA 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 RA 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, 2024 and 2023, the total outstanding balance of loans modified under BAHO and BARO Acts amounts to P2.10 billion and P2.46 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, 2024:

	2024 BAHO/BARO Accts.	2023 BAHO/BARO Accts.
Stage 1 (Performing)		
Corporate	72,303,485	83,093,543
Consumer	326,870,867	486,634,621
	399,174,352	569,728,164
Stage 2 (Underperforming)		
Corporate	7,264,681	26,008,803
Consumer	48,693,957	67,868,626
	55,958,638	93,877,429
Stage 3 (Non-performing)		
Corporate	1,004,045,951	1,051,525,827
Consumer	642,663,244	748,795,675
	1,646,709,195	1,800,321,502

(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

	2024		2023	
	Primary Reserve to Deposit*	Secondary Reserves to Deposits**	Primary Reserve to Deposit*	Secondary Reserves to Deposits**
December	13.71%	12.49%	17.47%	12.49%
September	14.17%	11.21%	12.96%	11.21%
June	15.18%	8.77%	16.72%	8.77%
March	14.99%	7.25%	16.57%	7.25%

*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
2024	92.25%	90.89%	92.36%	89.32%
2023	97.17%	95.15%	92.87%	88.17%

(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:

	2024	2023
December	15.37%	16.77%
September	14.43%	13.74%
June	15.30%	11.56%
March	14.11%	11.17%

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

	2024					Total
	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Beyond 5 Years	
Financial Assets:						
Financial assets at FVTPL	3,911	1,238	15,437	341,408	0	361,994
Financial assets at FVOCI:						
Government securities	351,515	53,475	238,693	669,336	111,024	1,424,043
Financial assets at amortized cost:						
Cash and other cash items	448,385	0	0	0	0	448,385
Due from BSP	1,265,855	0	0	0	0	1,265,855
Due from other banks	304,734	0	0	0	0	304,734
Loans and discounts:						
Corporate Consumption	2,201,643	504,927	786,909	899,321	681,610	5,074,410
Real estate	1,911,371	3,723	93,853	4,630,147	186,104	6,825,198
Others	7,966	238	25,964	363,010	3,943,965	4,341,143
Unquoted debt securities	576	1,528	9,496	56	0	11,656
	0	0	0	226	0	226

2024						
	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Beyond 5 Years	Total
Sales contract receivable	19	0	55,203	31,106	196,871	283,199
Accrued interest receivable	168,306	0	0	0	0	168,306
Accounts receivable	314,194	0	1,047	0	0	315,241
Bills purchased	2,174	0	0	0	0	2,174
Total Financial Resources	6,981,466	571,916	1,236,215	7,257,908	5,119,574	21,167,079
Financial Liabilities:						
Deposit liabilities:						
Demand	2,798,144	0	0	0	0	2,798,144
Savings	6,149,379	0	0	0	0	6,149,379
Time	4,841,503	0	0	505,410	242,955	5,589,868
Total Financial Liabilities	13,789,026	0	0	505,410	242,955	14,537,391
Net Liquidity Surplus (Gap)	(6,807,560)	571,916	1,236,215	6,752,499	4,876,619	6,629,688
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

	2023					
	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Beyond 5 Years	Total
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

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 of December 31, 2024 the Bank's compliance with LCR is at 122.30 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 of December 31, 2024 the Bank's compliance with NSFR is at 126.34 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, 2024 and 2023 that the aggregate daily losses were greater than the VaR limit. The Bank's VaR statistics follow (in thousands):

	2024	2023
December 31	16,920	15,380
Year to date average	16,768	10,585
High	20,310	16,360
Low	11,310	4,779

(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 tables set forth the repricing gap position of the Bank (in thousands).

2024					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Total
Financial Assets:					
Due from BSP	1,100,000	0	0	0	1,100,000
Loans receivables	630,412	784,533	845,926	3,652,367	5,913,238
Total financial assets	1,730,412	784,533	845,926	3,652,367	7,013,238
Financial Liability –					
Time deposits	2,526,825	1,524,254	64,439	24,371	4,139,889
Repricing Gap	(796,413)	(739,721)	781,487	3,627,996	2,873,349

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)

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*								
	2024				2023			
Increase (Decrease) in Basis Points	-100	-50	+50	+100	-100	-50	+50	+100
Change in mark-to-market gain / loss Financial Asset at FVTPL	8.65	-5.10	-5.39	-10.00	2.07	2.67	-8.19	-11.56

*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**								
	2024				2023			
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 of December 31, 2024 and 2023 as reported to the BSP follows (in thousands):

	Without BSP Relief 2024	With BSP Relief 2024	With BSP Relief 2023
Credit risk-weighted assets	12,936,614	13,087,963	12,597,940
Market-risk weighted assets	104,372	104,372	59,613
Operational risk-weighted assets	2,053,581	2,053,581	2,105,234
	15,094,567	15,245,916	14,762,787

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 in the succeeding table (in thousands):

	2024 w/out relief	2024 with relief	2023 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

	2024 w/out relief	2024 with relief	2023 with relief
3. Retained earnings	1,195,311	1,270,986	1,283,981
4. Other comprehensive income	(27,861)	(27,861)	(2,153)
<i>less: Regulatory adjustments to CET 1 Capital</i>			
1. Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	725	725	5,565
2. Deferred tax assets	658,242	633,017	588,746
3. Other intangible assets	19,597	19,597	21,914
Total CET1 Capital	1,595,643	1,696,543	1,772,360
A2. Additional CET1 Capital	0	0	0
Total Tier 1 Capital	1,595,643	1,696,543	1,772,360
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	89,788	89,788	92,201
Total Tier 2 Capital	89,788	89,788	92,201
Total Qualifying Capital	1,685,431	1,786,331	1,864,561
Risk Weighted Assets			
1. Total Credit Risk-Weighted Assets	12,936,614	13,087,963	12,597,940
2. Total Market Risk-Weighted Assets	104,372	104,372	59,613
3. Total Operational Risk-Weighted Assets	2,053,581	2,053,581	2,105,234
Total Risk-Weighted Assets	15,094,567	15,245,916	14,762,787
RISK-BASED CAPITAL ADEQUACY RATIO			
Common Equity Tier 1 Ratio	10.57%	11.13%	12.01%
Capital Conservation Buffer	4.57%	5.13%	6.01%
Tier 1 Capital Ratio	10.57%	11.13%	12.01%
Total Capital Adequacy Ratio	11.17%	11.72%	12.63%

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 of December 31, 2024 and 2023, 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(AT1)] 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):

	2024		2023	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Resources:				
At amortized cost:				
Cash and other cash items	448,385	448,385	904,068	904,068
Due from BSP	1,265,855	1,265,855	971,903	971,903
Due from other banks	304,735	304,735	169,167	169,167
Interbank Loan Receivables and SPURA	0	0	499,260	499,260
Loans and receivables – net	11,800,710	10,794,129	11,479,221	10,521,975
Financial assets	308,129	298,669	308,964	297,756
Financial assets at:				
FVTPL	352,837	352,837	198,598	198,598
FVOCI	1,403,787	1,403,787	1,308,986	1,308,986
	15,884,438	14,868,397	15,840,167	14,871,713
Financial Liabilities:				
At amortized cost:				
Deposit liabilities:				
Demand	2,798,144	2,798,144	3,020,710	3,020,710
Savings	6,149,379	6,149,379	6,118,087	6,118,087
Time	5,589,868	5,589,868	5,410,943	5,410,943
Accrued interest and other expenses	102,645	102,645	113,253	113,253
Other liabilities				
Bills purchased – contra	2,174	2,174	3,306	3,306
Managers' check	48,099	48,099	53,779	53,779
Due to PDIC	11,300	11,300	11,000	11,000
Due to Treasury of the Philippines	20,512	20,512	20,632	20,632
Miscellaneous	412,599	412,599	376,747	376,747
	15,134,720	15,134,720	15,128,457	15,128,457

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 of December 31 (in thousands):

2024				
	Level 1	Level 2	Level 3	Total Fair Value
Financial Resources				
Financial assets at FVTPL -				
Government securities held for trading	352,837	0	0	352,837
Financial assets at FVOCI -				
Government debt securities	1,403,787	0	0	1,403,787
	1,756,624	0	0	1,756,624
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

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.

2024				
	Level 1	Level 2	Level 3	Total Fair Value
Investment properties:				
Land	0	494,637,009	0	494,637,009
Building	0	0	336,066,381	336,066,381
Assets Held-for Sale	0	0	20,996,376	20,996,376
	0	494,637,009	357,062,757	851,699,766

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

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 2024 and 2023.

10. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents were as follows:

	2024	2023
Cash and other cash items	448,385,451	904,068,361
Due from BSP	1,265,855,021	971,902,862
Due from other banks	304,734,831	169,166,895
Securities Purchased under Resale Agreements (SPURA)	0	499,259,691

	2,018,975,303	2,544,397,809
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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 6.01 to 6.83 per cent per annum in 2024 and 5 to 6.72 per cent per annum in 2023. Interest income earned on the placement made with BSP amounted to P34.82 million in 2024 and P45.70 million in 2023 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:

	2024	2023
Commercial banks:		
Savings	5,138,764	5,184,165
Demand	14,352,217	33,374,847
	19,490,981	38,559,012
Government banks:		
Savings	278,378,092	102,941,621
Demand	6,865,758	27,666,262
	285,243,850	130,607,883
	304,734,831	169,166,895

Interest rates on these deposits range from 0.03 to 0.125 per cent per annum in 2024 and 0.05 to 0.125 per cent per annum in 2023. Interest income earned on the placements made with other banks amounted to P111,511 in 2024 and P87,521 in 2023 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 5.75 to 6.60 per cent in 2024 and 5.50 to 6.39 per cent in 2023. Interest income from SPURA amounted to P30.60 million in 2024 and P25.76 million in 2023 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 consists of:

11.1 Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVTPL as at December 31, 2024 and 2023 are composed of Philippine peso-denominated government debt securities amounting to P352.84 million and P198.60

million, respectively.

These debt securities classified as financial assets at FVTPL earn annual interest at rates ranging from 6.13 to 6.25 per cent in 2024 and 6.13 to 7.00 per cent in 2023 (see Note 11.4). All financial assets at FVTPL are held for trading.

For the years ended December 31, 2024 and 2023, net trading and securities gains (losses) in the statements of income resulted from:

	2024	2023
Net realized gains (losses)	857,198	237,422
Net unrealized gains (losses)	(1,255,977)	3,406,505
	(398,779)	3,643,927

11.2 Financial Assets at Fair Value Through Other Comprehensive Income

Financial Assets at FVOCI consist of Government debt securities amounting to P1.40 billion and P1.31 billion as of December 31, 2024 and 2023, 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 6.00 to 8.00 per cent in 2024 and 4.63 to 7.00 per cent in 2023. (see Note 11.4)

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

	2024	2023
Balance at beginning of the year	6,141,481	(4,803,455)
Net Unrealized gains (loss) recognized as other comprehensive income	(4,675,315)	10,944,936
Balance at end of year	1,466,166	6,141,481

11.3 Financial Assets at Amortized Cost

Financial assets at amortized cost consist of securities which bear nominal annual rates of 4.63 to 18.25 per cent both in 2024 and 4.63 to 18.25 per cent in 2023. These securities have maturity of beyond two years from the end of the reporting periods. The account consists of the following:

	2024	2023
Amortized Cost-Corporate bonds	5,000,000	5,000,000
Amortized Cost-FXTN	301,000,000	301,000,000
Unamortized Discount/Premium	2,178,770	3,014,203
Allowance for Credit Losses	(50,000)	(50,000)
Balance at the end of year	308,128,770	308,964,203

11.4 Interest Income on Trading and Investment Securities

For the years ended December 31, 2024 and 2023, interest income on trading and investment securities in the statements of income:

	Note	2024	2023
Financial assets at:			
FVTOCI	11.2	18,761,892	52,239,840
Amortized cost	11.3	74,430,652	13,657,021
FVTPL	11.1	13,553,317	7,670,486
		106,745,861	73,567,347

12. LOANS AND RECEIVABLES

This account consists of:

	Note	2024	2023
Loans and discounts:			
Corporate		5,354,797,391	5,239,952,732
Consumption		4,645,820,506	4,455,308,897
Real estate		2,971,878,743	3,049,069,093
Others		12,874,021	84,310,534
		12,985,370,661	12,828,641,256
Accrued interest receivable		168,306,204	166,014,367
Accounts receivable		315,239,824	243,828,961
Sales contract receivable		253,837,528	204,122,046
Bills purchased		2,173,517	3,306,140
Unquoted debt securities		226,226	282,782
		13,725,153,960	13,446,195,552
Unearned discounts		(3,950,870)	(3,961,055)
Allowance for credit losses	18	(1,920,493,638)	(1,963,014,047)
		11,800,709,452	11,479,220,450

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

Effective interest rates on loans and discounts range from 5 to 12 per cent both in 2024 and 2023.

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 of December 31, 2024, 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:

	2024	2023
Loans and discounts	154,588,904	158,183,512
Financial assets:		
FVTOCI	7,639,828	4,793,889
FVTPL	3,759,583	1,326,111
Amortized cost	884,003	884,003
Deposits with BSP and other banks	687,205	444,144
Sales contract receivable	742,927	378,222
Unquoted debt securities	3,754	4,486
	168,306,204	166,014,367

Interest income on loans and receivables consists of:

	2024	2023
Loans and discounts	926,070,633	872,842,790
Unquoted debt securities	14,489	14,635
Sales contracts receivable	12,485,080	10,851,014
	938,570,202	883,708,439

Interest Income from restructured loans amounted to P70.53 million and P35.38 million in 2024 and 2023, 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):

	2024	2023
Loans secured by:		
Real estate mortgage	4,091,460	4,016,959
Chattel mortgage	647,882	867,364
Deposits	28,113	86,655
	4,767,455	4,970,978
Unsecured	8,220,089	7,860,969
	12,987,544	12,831,947

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 2024 and 2023 are shown below.

	Land	Buildings and Improvements	Furniture, Fixtures and Office Equipment	Leasehold Improvement	Right-of-use Asset	Total
December 31, 2024						
Cost	1,011,711	42,151,998	203,555,770	223,165,101	175,278,189	645,162,769
Accumulated Depreciation and amortization	0	(30,414,261)	(169,001,710)	(147,061,141)	(46,806,863)	(393,283,975)
Allowance for Losses	0	0	(325,918)	0	0	(325,918)
Net carrying amount	1,011,711	11,737,737	34,228,142	76,103,960	128,471,326	251,552,876
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
January 1, 2023						
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

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2024 and 2023 is shown below.

	Land	Buildings and Improvements	Furniture, Fixtures and Office Equipment	Leasehold Improvement	Right-of-use Asset	Total
Balance at January 1, 2024						
net of accumulated depreciation and amortization	1,011,711	14,523,690	30,935,560	60,008,041	72,458,428	178,937,430
Additions	0	0	12,796,726	35,391,946	102,815,683	151,004,355
Transfer and Reclassification	0	0	2,276,892	2,142,806	4,078	4,423,776
Disposal	0	0	(392,632)	0	0	(392,632)
Depreciation and amortization charges for the year	0	(2,785,952)	(11,388,405)	(21,438,833)	(46,806,863)	(82,420,053)
Allowance for losses for the year	0	0	0	0	0	0

	Land	Buildings and Improvements	Furniture, Fixtures and Office Equipment	Leasehold Improvement	Right-of-use Asset	Total
Balance at December 31, 2024 net of accumulated depreciation and amortization	1,011,711	11,737,738	34,228,141	76,103,960	128,471,326	251,552,876
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	(325,918)	0	0	(325,918)
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

As of December 31, 2024 and 2023, the original cost of fully depreciated bank premises, furniture, fixtures and equipment still in use by the Bank amounted to P145.50 million and P133.90 million respectively.

As of December 31, 2024 and 2023, there were no idle and retired bank premises, furniture, fixtures and equipment.

Gain on disposal of bank premises, furniture, fixtures and equipment amounted to P651,266 and P252,229 in 2024 and 2023 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, 2024 and 2023, 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	56	1-6 years	2.75 years	0	0	56

14.1 Lease Liabilities

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

As of December 31, 2024, the Bank has not committed leases which have not commenced yet.

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

2024	Within 1 year	Two to Five years	More than Five years	Total
Lease Payments	8,512,332	138,083,296	8,133,810	154,729,438
Finance Charges	(802,955)	(8,967,851)	(386,952)	(10,157,758)
Lease Liability	7,709,377	129,115,445	7,746,858	144,571,680

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

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 P54.17 million and P38.14 in 2024 and 2023, respectively. Interest expense in relation to lease liabilities amounted to P10.17 million and P 5.01 million and is presented as part of Interest Expense in 2024 and 2023 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 2024 and 2023 are shown below.

	Land	Buildings and Improvements	Total
December 31, 2024			
Cost	494,637,009	336,066,381	830,703,390
Accumulated Depreciation	0	(82,206,191)	(82,206,191)
Accumulated Impairment	(18,361,130)	0	(18,361,130)
Net carrying amount	476,275,879	253,860,190	730,136,069
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
January 1, 2023			
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

Reconciliations of the carrying amounts of investment properties at the beginning and end of 2024 and 2023 as follows:

	2024			2023		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	515,334,149	378,766,768	894,100,917	506,362,310	412,137,951	918,500,261
Additions	79,811,166	17,892,000	97,703,166	53,540,220	17,991,920	71,532,140
Disposals	(100,508,306)	(60,592,388)	(161,100,694)	(44,568,381)	(51,363,103)	(95,931,484)
Balance at end of year	494,637,009	336,066,380	830,703,389	515,334,149	378,766,768	894,100,917

Accumulated depreciation

	2024			2023		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Balance at beginning of year	0	84,289,597	84,289,597	0	87,961,400	87,961,400
Depreciation and amortization	0	13,246,089	13,246,089	0	14,415,027	14,415,027
Disposals	0	(15,329,495)	(15,329,495)	0	(18,086,830)	(18,086,830)
Balance at end of year	0	82,206,191	82,206,191	0	84,289,597	84,289,597
Allowance for impairment and losses						
Balance at beginning of year	20,328,892	3,221,717	23,550,609	19,327,553	2,717,118	22,044,671
Adjustments	(483,862)	(990,967)	(1,474,829)	4,095,187	504,599	4,599,786
Disposals	(1,483,900)	(2,230,750)	(3,714,650)	(3,093,848)	0	(3,093,848)
Balance at end of year	18,361,130	0	18,361,130	20,328,892	3,221,717	23,550,609
Carrying amount at the end of year	476,275,879	253,860,189	730,136,068	495,005,257	291,255,454	786,260,711

The appraised value of the collaterals of investment properties amounted to P1.64 billion and P1.70 billion as at December 31, 2024 and 2023, respectively. Appraised 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 P11.24 million and P14.87 million in 2024 and 2023, respectively and is presented as Litigation under Other Operating Expenses in the statements of income.

In 2024 and 2023, 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 P28.97 million and P4.31 million, respectively.

The Bank recognized gain on sale of P22.72 million on investment properties in 2024 and gain amounting to P19.31 million in 2023, 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:

	2024	2023
Beginning balance	13,394,635	22,856,539
Repossessions	46,342,598	51,780,140
Sale and redemption	(40,547,053)	(61,242,044)
	19,190,180	13,394,635

As at December 31, 2024 and 2023, allowance for impairment loss on assets-held-for sale amounted to P1.81 million and P0.89 million a respectively (see Note 18).

In 2024 and 2023, the Bank recognized loss on sale and foreclosure of assets-held-for-sale amounting to P6.35 million and P4.11 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:

	2024	2023
Advance rentals and refundable deposits	34,190,074	35,860,208
Deferred charges	24,086,510	35,705,752
Software costs – net	19,597,487	21,914,310
Prepaid expenses	15,433,327	15,906,242
Deferred assets – car lease	1,656,935	4,976,680
Stationery supplies	2,508,036	1,662,272
Other Assets-FFE	463,033	515,736
Miscellaneous	5,513,604	5,420,255
	103,449,006	121,961,455
Allowance for impairment loss	(457,761)	(515,229)
	102,991,245	121,446,226

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

Prepaid expenses include payments for one year period for insurance premiums, membership dues, repairs and maintenance, taxes and licenses, and other services. These are amortized over the period covered of the related benefit.

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 2024 and 2023 is shown below:

	2024	2023
Cost	119,320,369	94,235,605
Accumulated amortization	(99,722,882)	(72,321,295)

Net carrying amount	19,597,487	21,914,310
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A reconciliation of the carrying amount of software costs at the beginning and end of 2024 and 2023 is shown below.

	2024	2023
Balance at January 1, net of accumulated amortization	21,914,310	30,986,501
Additions	25,084,764	16,700,362
Amortization charges for the year	(27,401,587)	(25,408,908)
Disposal / Reclassification	0	(363,645)
Balance at December 31, net of accumulated amortization	19,597,487	21,914,310

18. ALLOWANCES FOR CREDIT AND IMPAIRMENT LOSSES

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

	Note	2024	2023
Balances at beginning 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
Credit and impairment losses during the year			
Loans and receivables		0	213,363
Investment properties		0	0
Assets held-for-sale		0	0
Other resources		0	29,877
		0	243,240
Disposals:			
Loans and Receivables		(34,126,582)	(42,302,788)
Investment properties	15	(3,714,651)	(3,093,848)
Assets held for sale		(1,784,570)	(1,476,020)
Other resources		0	0
		(39,625,803)	(46,872,656)
Reversals/reclassifications			
Loans and receivables		(8,393,828)	(2,915,843)
Investment properties	15	(1,474,829)	4,599,786
Assets held-for-sale		2,701,435	1,477,026
Other resources		(57,468)	(512,962)
		(7,224,690)	2,648,007
Balances at end of year:			
Loans and receivables	12	1,920,493,638	1,963,014,047
Investment properties	15	18,361,130	23,550,609
Assets held-for-sale	16	1,806,194	889,330
Other resources	17	457,761	515,229
		1,941,118,723	1,987,969,215

Presented below is the breakdown of allowance for credit and impairment losses for Loans and Receivable as at December 31, 2024:

	Stage 1	Stage 2	Stage 3	Total
Loans and Receivables:				
Loans and discounts:				
Corporate	24,897,321	12,344,271	1,350,322,862	1,387,564,454
Consumption	38,818,421	7,109,936	344,607,587	390,535,944
Real estate	22,582,593	5,215,038	41,663,266	69,460,897
Others	10,406,442	345,634	62,180,267	72,932,343
	96,704,777	25,014,879	1,798,773,982	1,920,493,638

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for loans and discounts in 2024 is as follows:

	Stage 1	Stage 2	Stage 3	Total
<i>Corporate</i>				
Gross carrying amount as at January 1, 2024	2,169,173,719	264,035,438	2,806,743,576	5,239,952,733
New assets originated or purchased	3,094,643,911	0	0	3,094,643,911
Assets derecognized or repaid	(2,874,028,738)	(7,605,137)	(65,261,417)	(2,946,895,292)
Transfers from Stage 1	103,612,083	(103,612,083)	0	0
Transfers to Stage 2	0	(89,726,598)	89,726,598	0
Transfers to Stage 3	0	0	0	0
Transfer to Investment Property	0	0	(32,903,961)	(32,903,961)
Amounts written off	0	0	0	0
	2,493,400,975	63,091,620	2,798,304,796	5,354,797,391

ECL allowance as at January 1, 2024 under PFRS 9	21,656,609	20,778,449	1,364,000,104	1,406,435,162
Provisions	0	0	0	0
Assets derecognized or repaid	0	0	0	0
Transfers from Stage 1	3,240,712	(3,240,712)	0	0
Transfers to Stage 2	0	(5,193,466)	5,193,466	0
Transfers to Stage 3	0	0	(18,870,708)	(18,870,708)
Amounts written off	0	0	0	0
	24,897,321	12,344,271	1,350,322,862	1,387,564,454

<i>Consumption</i>				
Gross carrying amount as at January 1, 2024	3,573,084,431	94,598,648	787,625,818	4,455,308,897
New assets originated or purchased	2,516,876,901	0	0	2,516,876,901
Assets derecognized or repaid	(2,161,278,396)	(53,391,424)	(21,939,119)	(2,236,608,939)
Transfers to (from) Stage 1	(46,840,817)	46,840,817	0	0
Transfers to (from) Stage 2	0	(18,291,811)	18,291,811	0
Transfers to (from) Stage 3	0	0	0	0
Transfer to Investment Property	0	0	(55,956,438)	(55,956,438)
Amounts written off	0	0	(33,799,915)	(33,799,915)
	3,881,842,119	69,756,230	694,222,157	4,645,820,506

ECL allowance as at January 1, 2024 under PFRS 9	35,730,844	4,808,378	335,976,937	376,516,160
Provisions (recovery)	0	0	0	0
Assets derecognized or repaid	0	0	0	0
Transfers to (from) Stage 1	1,767,010	0	(1,767,010)	0
Transfers to (from) Stage 2	1,320,567	(1,320,567)	0	0
Transfers to (from) Stage 3	0	3,622,124	44,197,575	47,819,699

	Stage 1	Stage 2	Stage 3	Total
Amounts written off	0	0	(33,799,915)	(33,799,915)
	38,818,421	7,109,935	344,607,587	390,535,944
<i>Real estate</i>				
Gross carrying amount as at January 1, 2024	2,355,937,710	120,583,003	572,548,380	3,049,069,093
New assets originated or purchased	270,682,330	0	0	270,682,330
Assets derecognized or repaid	(263,534,734)	(24,997,638)	(46,345,631)	(334,878,003)
Transfers to (from) Stage 1	(101,684,467)	101,684,467	0	0
Transfers to (from) Stage 2	(3,141,555)	3,141,555	0	0
Transfers to (from) Stage 3	0	(95,644,074)	95,644,074	0
Transfer to Investment Property	0	0	(12,994,677)	(12,994,677)
Amounts written off	0	0	0	0
	2,258,259,284	104,767,313	608,852,146	2,971,878,743
ECL allowance as at January 1, 2024 under PFRS 9	23,559,377	6,029,150	84,732,805	114,321,332
Provisions	0	0	0	0
Transfers to Stage 1	0	0	0	0
Transfers from Stage 2	(976,784)	976,784	0	0
Transfers from Stage 3	0	(1,790,897)	1,790,897	0
Amounts written off	0	0	(44,860,435)	(44,860,435)
	22,582,593	5,215,037	41,663,267	69,460,897
<i>Others</i>				
Gross carrying amount as at January 1, 2024	430,404,609	6,826,075	264,634,146	701,864,830
New assets originated or purchased	624,904,201	0	0	624,904,201
Assets derecognized or repaid	(566,587,692)	(386,668)	(1,970,211)	(568,944,571)
Transfers from Stage 1	0	0	0	0
Transfers to Stage 2	3,799,114	(3,799,114)	0	0
Transfers to Stage 3	0	(259,545)	259,545	0
Transfer to Investment Property	0	0	(4,840,475)	(4,840,475)
Amounts written off	0	0	(326,666)	(326,666)
	492,520,232	2,380,748	257,756,339	752,657,320
ECL allowance as at January 1, 2024 under PFRS 9	9,020,967	375,946	56,344,483	65,741,396
Provisions	0	0	0	0
Assets derecognized or repaid	0	0	0	0
Transfers to Stage 1	1,194,124	0	(1,194,124)	0
Transfers to Stage 2	191,351	(191,351)	0	0
Transfers from Stage 3	0	161,040	7,356,573	7,517,613
Amounts written off	0	0	(326,666)	(326,666)
	10,406,442	345,635	62,180,266	72,932,343

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

19. DEPOSIT LIABILITIES

This account consists of the following deposits:

	2024	2023
Demand	2,798,144,374	3,020,710,212
Savings	6,149,379,059	6,118,086,771
Time	5,589,867,994	5,410,942,964
	14,537,391,427	14,549,739,947

Savings deposit liabilities consist of regular and special savings accounts. The regular savings account bears annual interest rate of 0.30 per cent in 2024 and 2023. The special savings account bears annual interest rate ranging from 0.35 per cent to 0.45 per cent both in 2024 and 2023. While the time deposits bear annual interest rate ranging from 1.23 to 2.88 per cent in 2024 and 2023.

Details of interest expense on deposit liabilities follow:

	2024	2023
Demand	7,493,249	8,146,414
Savings	20,625,895	21,203,175
Time	265,202,466	187,973,755
	293,321,610	217,323,344

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 of December 31, 2024 and 2023, the Bank is in compliance with such regulations.

Liquidity and statutory reserves pertain to Due from BSP amounting to P1.27 billion and P0.97 billion as of Dec. 31, 2024 and 2023, respectively (see Note 10). The Bank is in compliance with such regulations as of December 31, 2024 and 2023.

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

20. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

This account consists of:

	2024	2023
Accrued interest payable	22,625,146	27,413,062
Accrued other taxes and licenses	19,421,968	16,559,089
Insurance payable to PDIC	11,300,000	11,000,000
Outside services and utilities	17,690,477	32,738,478
Staff benefits	2,149,730	6,084,239
Salaries of seconded employees	19,130,757	14,994,619
Others	21,627,406	21,022,537
	113,945,484	129,812,024

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	2024	2023
Dividends payable	27.1	21,780,641	21,802,863
Accounts payable		114,188,615	168,396,693
Managers checks and demand drafts outstanding		48,098,579	53,779,098
Withholding taxes payable		10,979,261	10,472,356
Due to the Treasurer of the Philippines		20,511,885	20,631,541
SSS, Medicare, ECC, compensation premiums		5,158,668	4,090,949
Deferred credits		37,142,280	33,422,294
Lease Liabilities	14.1	144,571,680	88,550,821
Miscellaneous		47,954,122	32,477,643
		450,385,731	433,624,258

Accounts payable includes payment on loans pending liquidation and restructuring amounting to P59.29 million and P134.93 million as at December 31, 2024 and 2023. 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, 2024 pertains to loan releases near year-end and various dealers and salesman incentive fees which were presented for payment subsequent to December 31, 2024. Accordingly, significant part of managers checks outstanding as of December 31, 2024 and 2023 was already reversed on the succeeding quarter.

As at December 31, 2024 and 2023, 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):

	2024			2023		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Resources						
Cash and other cash items	448,385	0	448,385	904,068	0	904,068
Due from BSP	1,265,855	0	1,265,855	971,903	0	971,903
Due from other banks	304,735	0	304,735	169,167	0	169,167
SPURA	0	0	0	499,260	0	499,260
Financial assets: FVTPL	0	352,837	352,837	0	198,598	198,598

	2024			2023		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
FVTOCI	699,891	703,896	1,403,787	803,845	505,141	1,308,986
Amortized Cost	4,950	303,179	308,129	0	308,964	308,964
Loans and discounts - gross	4,410,582	8,574,788	12,985,370	4,232,055	8,596,586	12,828,641
Unquoted debt securities - gross		226	226	0	283	283
Accrued interest receivable	168,306	0	168,306	166,014	0	166,014
Sales contract receivables	57,981	195,857	253,838	1,728	202,394	204,122
Accounts receivable	315,240	0	315,240	243,829	0	243,829
Bills purchased	2,174	0	2,174	3,306	0	3,306
Unearned discount	(3,951)	0	(3,951)	(3,961)	0	(3,961)
	7,674,148	10,130,783	17,804,931	7,991,214	9,811,966	17,803,180
Allowance for credit and impairment losses	0	(1,920,494)	(1,920,494)	0	(1,963,014)	(1,963,014)
	7,674,148	8,210,289	15,884,437	7,991,214	7,848,952	15,840,166
Non-Financial Resources						
Bank premises, furniture and fixtures	0	251,553	251,553	0	176,416	176,416
Assets held-for-sale - net	19,190	0	19,190	13,395	0	13,395
Investment properties - net	0	730,136	730,136	0	786,261	786,261
Intangible and other resources –net	0	102,991	102,991	0	121,446	121,446
Deferred tax assets	0	653,179	653,179	0	656,967	656,967
	19,190	1,737,859	1,757,049	13,395	1,741,090	1,754,485
	7,693,338	9,948,148	17,641,486	8,004,609	9,590,042	17,594,651
Financial Liabilities						
Deposit liabilities	13,789,026	748,365	14,537,391	13,767,854	781,886	14,549,740
Manager's checks and demand drafts outstanding	48,099	0	48,099	53,779	0	53,779
Accrued interest and other expenses	94,524	0	94,524	113,254	0	113,254
Retirement Liability	30,109	0	30,109	31,839	0	31,839
Other liabilities	402,287	0	402,287	379,845	0	379,845
	14,364,045	748,365	15,112,410	14,346,571	781,886	15,128,457
Non-Financial Liabilities						
Accrued interest and other expenses	19,422	0	19,422	16,559	0	16,559
Income tax payable	2,888	0	2,888	2,842	0	2,842
	22,310	0	22,310	19,401	0	19,401
	14,386,355	748,365	15,134,720	14,365,972	781,886	15,147,858

23. EMPLOYEE BENEFITS

23.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below:

	Note	2024	2023
Salaries and wages		337,397,235	364,327,469
Fringe benefits		91,779,594	90,810,579
Retirement - defined benefit plan	23.2	28,160,555	22,823,935
Short-term medical benefits		0	12,667,345
		457,337,384	490,629,328

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 2024.

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

	2024	2023
Present value of retirement obligation	244,910,484	235,536,343
Fair value of plan assets	(214,801,549)	(203,697,168)
	30,108,935	31,839,175

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

	2024	2023
Balance at beginning of year	235,536,343	195,829,747
Current service cost	26,186,526	22,543,075
Interest expense	14,603,253	14,491,401
Remeasurement – actuarial losses (gains) arising from:		
Change in financial assumptions	3,645,507	38,329,253
Experience adjustment Benefits paid	(17,720,995)	(17,223,521)
Benefits paid	(17,340,150)	(18,433,612)
Balance at end of year	244,910,484	235,536,343

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

	2024	2023
Balance at beginning of year	203,697,168	192,034,747
Expected interest income	12,629,224	14,210,541
Contributions to the plan assets	28,160,555	22,823,935
Total benefits paid	(17,340,150)	(18,433,612)
Actuarial gain (loss) on plan assets	(12,345,248)	(6,938,035)
Balance at end of year	214,801,549	203,697,576

The actual return gain on plan assets amounted to P283,976 in 2024 and P7.27 million in 2023.

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

	2024	2023
Cash and cash equivalents	14,090,982	13,056,988
Debt securities	198,820,314	188,868,014
Equity securities	1,868,773	1,731,426
Others	21,480	40,740
214,801,549	203,697,168	

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:

	2024	2023
<i>Reported in statement of income</i>		
Current service cost	26,186,526	22,543,075
Net interest expense:		
Interest expense	14,603,253	14,491,401
Interest income	(12,629,224)	(14,210,541)
28,160,555	22,823,935	
<i>Reported in other comprehensive income</i>		
Remeasurement – actuarial losses (gains) arising from:		
Change in financial assumptions	3,645,507	38,329,253
Experience adjustment	(17,720,995)	(17,223,521)
Return on plan assets (excluding amounts included in net Interest expense)	12,345,248	6,938,035
(1,730,240)	28,043,767	

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:

	2024	2023
Discount rates	6.10%	6.20%
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 below.

(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, 2024			
Discount rate	+/-0.50%	(17,500,938)	19,411,448
Salary growth rate	+/-0.50%	18,494,126	(16,859,111)
December 31, 2023			
Discount rate	+/-0.50%	(17,111,335)	18,982,685
Salary growth rate	+/-0.50%	18,114,828	(16,509,205)

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 P30.02 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 P29.62 million to the retirement plan in 2025.

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	2024	2023
Recovery of Written off Accounts		2,332,962	3,007,378
Bancassurance Income		2,250,000	2,250,000
Gain on sale of FA-FVOCI		0	363,646
Gain on sale of bank premises, furniture, fixtures and equipment	13	651,266	252,229
Rental income		80,709	83,500
Others		885,018	1,888,193
		6,199,955	7,844,946

Others includes income on checkbook re-order amounting to P466,813 and P1.78 million in 2024 and 2023, respectively.

25. MISCELLANEOUS EXPENSES

This account consists of:

	2024	2023
Communications	42,758,073	37,929,481
Commission fees	14,000,688	9,256,730
Fines, penalties and other charges	13,372,232	16,376,327
Stationery and supplies used	8,944,437	8,077,835
Freight expenses	5,954,638	5,437,079
Banking and supervision fees	3,921,712	6,256,449
Semi-Expendable Items	3,504,232	5,766,312
Appraisal expenses	1,818,975	2,112,818
Advertising and publicity	833,672	765,268
Donations	20,001	0
Others	2,918,394	2,972,273
	98,047,054	94,950,572

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, 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:

	2024	2023
<i>Reported in statement of income:</i>		
Current tax expense:		
RCIT at 25 per cent	0	0
Final tax at 20 per cent	35,264,802	30,377,916
	35,264,802	30,377,916
Deferred tax income relating to origination and reversal of temporary differences	15,099,493	12,806,254
	50,364,295	43,184,170
<i>Reported in other comprehensive loss</i>		
Deferred tax income relating to origination and reversal of temporary differences	(432,560)	7,010,942

The Bank is subject to the MCIT which is computed at 2 per cent 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 of 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
2024	11,743,042	0	0	11,743,042	2027
	23,021,883	0	0	23,021,883	

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

	2024	2023
Tax on pretax profit at 25 per cent	28,428,650	19,135,531
Adjustments for income subjected to lower income tax rates	(8,816,201)	(7,594,480)
Tax effects of:		
NOLCO	10,662,364	22,713,279
Non-deductible expense	27,580,640	11,216,044
Non-taxable income	(7,491,158)	(2,492,379)
	50,364,295	43,184,170

The Bank reported a taxable loss for the year ending December 31, 2024. Details of Net Operating Loss Carry Over (NOLCO) as of December 31 is presented as follows:

Inception	Amount	Utilized	Expired	Balance	Expiry Year
2024	42,945,640	0	0	42,945,640	2027
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	
	2024	2023	2024	2023	2024	2023
Deferred tax assets:						
Allowance for impairment	565,406,540	577,111,663	(11,705,123)	(11,125,806)	0	0
Accumulated depreciation on investment properties	56,315,987	53,000,122	3,315,864	3,612,625	0	0
Post-employment defined benefit obligation	8,169,502	8,435,292	166,769	475,499	(432,560)	7,010,942
Unrealized losses on mark to market of FVTPL	313,994	(851,626)	1,165,620	(2,947,434)	0	0
Lease Liabilities	36,142,920	22,137,705	14,005,215	1,548,451	0	0
Unearned Bancassurance	7,744,093	8,306,593	(562,500)	(562,500)	0	0
Excess MCIT	23,021,883	11,278,841	0	0	0	0
	697,114,919	679,418,590	6,385,846	(8,999,165)	(432,560)	7,010,942
Deferred tax liabilities:						
Right –of-use asset	(32,117,831)	(18,114,607)	(14,003,224)	(2,427,093)	0	0
Accumulated unrealized gain on foreclosure	(7,242,652)	(1,078,253)	(6,164,400)	(111,631)	0	0
Past service cost	(4,576,137)	(3,258,421)	(1,317,716)	(1,268,365)	0	0
	(43,936,621)	(22,451,281)	(21,485,340)	(3,807,089)	0	0
Net Deferred Tax Assets	653,178,298	656,967,309				
Deferred Tax Income			(15,099,493)	(12,806,254)	(432,560)	7,010,942

In 2024 and 2023, the Bank opted to claim itemized deductions in computing for its income tax due.

27. EQUITY

27.1 Capital Stock

As at December 31, 2024 and 2023, 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 7,172,333 shares amounting to P717.25 million. There were no movements in the paid-up capital which remains at P389.51 million 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 of 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 of 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 November 20, 2020 from the GCG categorizing the UCPBS as a GFI, and thus covered by RA No. 7656 (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 the Revised Implementing Rules and Regulations (IRR) (2016) to RA 7656 issued by the DOF on January 26, 2016:

First, the Revised IRR (2016) provides that the rules shall apply to all Government-Owned or Controlled Corporations¹ ("GOCCs"), which shall include financial institutions owned or controlled by the NG but shall exclude Acquired Asset Corporations². The Bank submits that UCPBS is an Acquired Asset Corporation, and thus excluded from the GOCCs required to declare and remit dividends to the NG.

Second, Section 7 (b) of the Revised IRR (2016) 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 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 per cent dividend remittance to the NG for its 2021 and 2022 Net Earnings pursuant to RA 7656. The Bank provided to DOF

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)

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 P21.78 million and P21.80 million as of December 31, 2024 and 2023, respectively. (see Note 21).

As of December 31, 2024 and 2023, 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 (see Note 11.2)	Post- employment Defined Benefit Obligation (see Note 23.2)	Total
Balance as at January 1, 2024	6,141,481	(29,326,862)	(23,185,381)
Remeasurements of defined benefit post-employment plan	0	1,730,240	1,730,240
Fair value loss on financial assets at FVOCI	(4,675,315)	0	(4,675,315)
Other comprehensive loss before tax	(4,675,315)	1,730,240	(2,945,075)
Tax expense	0	(432,560)	(432,560)
Other comprehensive loss after tax	(4,675,315)	1,297,680	(3,377,635)
Balance as at December 31, 2024	1,466,166	(28,029,182)	(26,563,016)
Balance as at 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 at December 31, 2023	6,141,481	(29,326,862)	(23,185,381)

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, 2024 and 2023 the Bank's appropriated surplus pertaining to the General loan loss provisions (GLLP) amounting to P3.36 million and P11.30 million, respectively. In addition, a Reserve for Self-Insurance (RSI) amounting to P0.10 million for both years is included in the appropriated surplus balance.

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	2024	2023	2024	2023	Terms and Conditions
Parent Bank						
	Due from other banks	285,107,391	130,607,883	0	0	on-demand; 0.25%; unsecured
	Interest Income	0	0	68,876	42,010	1-7days; 2.53125% to 2.5625%; unsecured
	Interest Expense	0	0	0	152,165	1-4 days; 2.25%-2.28% unsecured
	Compensation & fringe benefits	0	0	4,107,743	8,143,657	non-interest bearing; unsecured
	Rent expense	0	0	3,750,505	9,293,247	non-interest bearing; unsecured
United Coconut Planters Life Assurance Corporation						
	Deposit liabilities	2,662,980	742,509	0	0	on-demand; interest bearing; unsecured
	Interest expense	0	0	7,409	358	on-demand; interest bearing; unsecured
UCPB-CIIF Finance and Corporation						
	Deposit liabilities	1,805,595	0	0	0	on-demand; interest bearing; unsecured
	Interest expense	0	0	373	0	on-demand; interest bearing; unsecured
Cocogen Insurance. Inc.						
	Deposit liabilities	3,678,231	2,054,032	0	0	on-demand; interest bearing; unsecured
	Interest expense	0	0	4,929	3,205	on-demand; interest bearing; unsecured

Details of the Parent Bank transactions follow:

28.1 Bank Deposits

The Bank has deposits accounts with the parent bank amounting to P285.11 million and P130.61 million as of December 31, 2024 and 2023, respectively, which are presented as part of Due from Other Banks in the statement 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 P68,876 and P42,010 in 2024 and 2023, 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 2024 and 2023, the parent charged the Bank expenses amounting to P4.11 million and P8.14 million, respectively.

b. The Bank incurred rent expense amounting to P3.75 million and P9.29 million in 2024 and 2023 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:

	2024	2023
Short-term benefits	4,107,743	8,143,657
Post-employment benefits	0	0
	4,107,743	8,143,657

Deposit liabilities to key management personnel amounted to P1.21 million and P10.36 million for 2024 and 2023, respectively. Interest expense incurred on the deposit liabilities for 2024 and 2023 amounted to P9,623 and P152,165, 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, 2024 and 2023, 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 P24.59 million as of December 31, 2024 and P15.42 million for 2023. The related interest expense recognized by the Bank from these deposits amounted to P1.16 million and P1.09 million for 2024 and 2023, 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, 2024 and 2023, 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 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 BOD 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:

	2024	2023
Return on average equity	3.28%	2.23%
Net interest margin	5.58%	5.78%
Return on average assets	0.51%	0.35%

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, 2024, 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 of December 31, 2024 and 2023, the information on the concentration of loans and discounts as to industry follows (in thousands, except for percentages):

	2024		2023	
	Amount	%	Amount	%
Loans to individuals primarily for personal use purposes	4,820,349	37%	4,395,688	34%
Real estate activities	3,783,892	29%	3,944,668	31%
Wholesale and retail trade, repair of motor vehicles	2,136,315	16%	2,065,992	16%
Financial and insurance activities	878,782	7%	747,497	6%
Agriculture, forestry and fishing	51,572	1%	212,402	2%
Education	210,230	2%	274,426	2%
Transportation and storage	125,257	1%	154,154	1%
Construction	157,535	1%	122,821	1%
Others	823,613	6%	914,299	7%
	12,987,545	100%	12,831,947	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).

2024			
	Performing	Non-performing	Total Loan Portfolio
Gross Carrying Amount			
Corporate	2,595,433	2,755,696	5,351,129
Consumer	6,327,775	1,304,690	7,632,465
Allowance for ECL	(113,231)	(1,735,861)	(1,849,092)
Net Carrying Amount	8,809,977	2,324,525	11,134,502

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

As of December 31, 2024 and 2023, Non-performing loans (NPLs) not fully covered by allowance for credit losses follow:

	2024	2023
Total NPLs	4,060,384,829	3,493,067,511
NPLs fully covered by allowance for credit and impairment losses	(937,514,414)	(943,045,720)
	3,122,870,415	2,550,021,791

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:

	2024	2023
Due within one year	21,549,118	46,275,037
Due beyond one year but not beyond five years	628,102,485	590,677,763
Due beyond five years	507,708,761	546,624,871
	1,157,360,363	1,183,577,671

Restructured receivables earn annual interest rates ranging from 7 to 27 per cent for 2024 and 7 per cent to 30 per cent in 2023.

31.5 Information on related party loans broken down as follows:

In the ordinary course of business, the Bank can enter into loans 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, 2024 and 2023, 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:

	2024	2023
Total outstanding DOSRI loans	1,599,453	6,615,836
Unsecured DOSRI loans	1,470,887	6,376,173
Percent of DOSRI loans to total loans	0.01%	0.05%
Percent of unsecured DOSRI loans to total DOSRI loans	91.96%	96.38%
Percent of past due DOSRI loans to total DOSRI loans	56.02%	16.18%
Percent of non-performing DOSRI loans to total DOSRI loans	56.02%	16.12%

In 2024 and 2023, total interest income on DOSRI loans amounted to P0.27 million and P0.68 million, respectively.

31.6 Secured Liabilities and Assets Pledged as Security

As of December 31, 2024, 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:

	2024	2023
Late deposits	612,640	1,186,191
Items held for safekeeping	44,864	46,601
Others	7,335	8,018

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 P68.15 million in 2024 and is shown as part of Taxes and Licenses in the 2024 statement of income [see Note 32(e)].

(b) Taxes on Importation

The Bank did not have any importations in 2024.

(c) *Excise Taxes*

The Bank does not have excise taxes accrued since it did not have any transactions subject to excise tax in 2024.

(d) *Documentary Stamp Tax*

Documentary stamp taxes (DST) paid and accrued in 2024 is presented below.

On loan documents	65,952,578
On mortgages, pledges, and deed of trust	1,433,940
On leases and other hiring agreements	96,056
On telegraphic transfer	270
	67,482,844

For the year ended December 31, 2024, DST affixed amounted to P 67.4 million, of which P 32.0 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 2024 are as follows:

	Note	
GRT	32(a)	68,233,930
DST		35,475,901
License and permit fees		7,668,066
Fringe benefit tax		163,811
Others		49,552
		111,591,260

(f) *Withholding Taxes*

The details of total withholding taxes in 2024 are shown below.

Compensation and benefits	21,120,824
Expanded	9,795,775
Business Tax	14,267,835
Final	52,003,233
	97,187,667

(g) *Deficiency Tax Assessments and Tax Cases*

As of December 31, 2024, the Bank is undergoing a tax audit by the BIR for the taxable year 2021.

On December 17, 2024, the Bank received a tax assessment from the BIR amounting to P73.35 million, covering alleged deficiencies in Income Tax, Withholding tax on Compensation, Fringe Benefits Tax, Expanded Withholding Tax, Final Withholding of VAT and Registration Fees, inclusive of penalties and interest.

The Bank, in consultation with its legal and the Office of the Government Corporate Counsel (OGCC), has filed a formal request for reinvestigation on January 16, 2025, contesting the findings based on alleged discrepancies, documentary evidences and procedural issues. The case is currently under review by the BIR.

The Bank's Management and its legal counsel believe that the Bank has valid grounds to contest the assessment, and as such, no provision has been recognized in the financial statements as of December 31, 2024. The Bank will continue to monitor developments and assess any financial impact that may arise from the resolution of the case.

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL ISSUE

1. The recognition of 414 properties acquired through merger at a nominal amount of P1.00 each, without adequate assessment of their identifiability and fair value as of the acquisition date, is not in accordance with Paragraphs 11 and 18 of Philippine Financial Reporting Standard 3, thereby affecting the faithful representation of the Investment Property account balance of P830,703,390 as at December 31, 2024 in the financial statements.

1.1 In accordance with the requirements of PFRS 3 on business combinations, the initial accounting for identifiable assets acquired through merger must be based on their fair values as of the acquisition date. In cases where such fair value information is not immediately available, the standard provides for a “measurement period” not to exceed one year from acquisition during which provisional amounts may be retrospectively adjusted once relevant data becomes available. These requirements are specifically articulated under Paragraphs 11, 18, and 45 of PFRS 3:

Recognition conditions

11. To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired, and liabilities assumed must meet the definitions of assets and liabilities in the Conceptual Framework for Financial Reporting at the acquisition date.

Recognition principle

18. The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

Measurement period

45. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements’ provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

1.2 Likewise, Paragraphs 2.12 of Conceptual Framework provides that:

Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent...

1.3 On November 5, 2005 and January 5, 2006, the BSP and the SEC, respectively, approved the merger of UCPB Rural Bank, Inc. (URB) with UCPBS, with UCPBS designated as the surviving entity. Pursuant to the terms of the merger, all assets and liabilities of URB were transferred to and assumed by UCPBS in accordance with applicable regulatory and legal provisions. Among the assets transferred were numerous parcels of real estate primarily agricultural and residential properties, which were classified as Investment Property in the books of UCPBS.

1.4 During the audit of the Investment Property account, it was noted that 414 parcels of real estate acquired through the business combination with URB were recognized in the books of UCPBS at a nominal value of P1.00 each. Based on Management's representation, these values were merely carried over from the accounting records of URB without adjustment or fair value remeasurement at the time of acquisition. The properties fall under two categories:

a. Previously recorded assets – Properties that were already recognized in URB's books at a nominal value of P1.00, but without available supporting documents establishing their origin, mode of acquisition (e.g., foreclosure, dación en pago, judgment award), or valuation basis.

b. Unrecorded or unmatched assets – Properties that were not recorded in URB's books at the time of the merger but were included in the list of assets subsequently recorded by UCPBS. These properties had supporting documents such as tax declarations and/or land titles that were in the custody of URB, which served as the basis for their inclusion. Despite the absence of prior booking, they were recorded in UCPBS's books at a nominal value of P1.00 each.

1.5 Certain acquired properties date back as early as 1973, and no historical records were available to substantiate their initial acquisition, legal ownership, or the valuation methodology previously applied by the predecessor entity, URB. Management explained that during the 2005 merger, these properties were recorded at a nominal value of P1.00 each, consistent with the amounts reflected in the accounting records of the merged entity. The use of nominal values was retained by UCPBS upon transfer to preserve book continuity, given the absence of verifiable acquisition documents and formal valuation reports at the time of recognition.

1.6 UCPBS further explained that it applied the cost model under PAS 40 – Investment Property in recognizing the initial carrying amount of the real estate properties acquired from URB. In line with this approach, a nominal value of P1.00 per property was assigned as the deemed cost, consistent with the values previously reflected in URB's accounting records.

1.7 In view of the above information, two major issues arise from the accounting treatment adopted by UCPBS for the real estate properties acquired from URB: (1) USB recognized certain assets without sufficient evaluation of supporting documentation to establish their identifiability, legal ownership, and acquisition history; and (2) the properties were initially recorded at a nominal amount of P1.00 each, without conducting the required fair value determination as of the acquisition date.

1.8 In particular, several properties were either recorded at nominal value of P1.00 without documentation to support their origin or legal claim, or not previously recognized in URB's books but were carried over based solely of the tax declarations or land titles in the custody of UCPBS. This practice is inconsistent with paragraphs 11 and 18 of PFRS 3, which provides that only identifiable assets acquired may be recorded as part of the acquisition, and the acquirer must measure the identifiable assets acquired and liabilities assumed at their acquisition-date fair values, respectively.

1.9 Although PAS 40 requires investment property to be initially measured at cost, this rule must be read alongside with PFRS 3 when the property is acquired as part of a business combination, which requires the acquiring entity to determine the fair value of the assets and liabilities as of the acquisition date. This requirement of PFRS 3 applies regardless of whether the entity subsequently applies the cost model or the fair value model under PAS 40. Furthermore, PFRS 3 paragraph 45 provides for a "measurement period" of up to one year from the acquisition date, during which the acquirer is allowed to finalize provisional amounts based on new information relating to conditions existing at acquisition.

1.10 It is noteworthy that during the post-merger period, UCPBS was eventually able to locate supporting documents, including tax declarations and certificates of title, for several properties initially carried at a nominal value of P1.00. These records, although not available at the time of the 2005 merger, were subsequently recovered and used as references in appraisal activities conducted after the acquisition. Despite the availability of these documents within the allowable measurement period prescribed under PFRS 3, they were not initially considered in estimating the fair value of the properties for financial reporting purposes. Tax declarations, in particular, were utilized on a case-by-case basis to validate property details such as existence and indicative value, but no consolidated summary or valuation matrix was prepared at that time to guide property measurement at acquisition.

1.11 In 2018, the UCPBS formally initiated a clean-up of its Real and Other Properties Acquired (ROPA) registry, which included the systematic review of property documents under custodianship. It was through this process that several documents related to properties previously recorded at P1.00 were recovered. As of reporting date, the Bank is undertaking verification procedures to establish the existence and confirm the legal ownership of these properties. This includes authentication of tax declarations and land titles through coordination with the appropriate government agencies. To support this initiative, a comprehensive appraisal of the subject properties has also been conducted by licensed appraisers to determine their current fair market values.

1.12 While the subsequent application of the cost model under PAS 40 is appropriate, the reliability of the current carrying amount of the assets acquired is affected by not applying the required fair value measurement at the time of acquisition, as provided under Paragraph 18 of PFRS 3. Moreover, despite the one-year measurement period under

Paragraph 45 of same PFRS, which would have allowed for retrospective adjustments upon availability of relevant information, no effort was made to reassess the provisional amounts. This omission is particularly significant considering that supporting documents such as tax declarations and land titles were eventually located and later utilized in appraisal activities, indicating that valuation proxies were in fact accessible and usable within the allowable period.

1.13 In light of the foregoing, the recognition of 414 properties acquired through merger at a nominal amount of P1.00 each, without adequate assessment of their identifiability and fair value as of the acquisition date, is not in accordance with Paragraphs 11 and 18 of PFRS 3, thereby affecting the faithful representation of the Investment Property account balance of P830,703,390 as at December 31, 2024 in the financial statements.

1.14 **We recommended and Management agreed to:**

- a) Direct the Credit Appraisal and Investigation Department to perform a comprehensive reassessment and fair value determination of properties recorded at nominal amounts and adjust the carrying amounts, as appropriate, to ensure alignment with the initial recognition and subsequent measurement requirements under PFRS 3 and PAS 40; and**
- b) Instruct the Loans Documentation Department to establish and maintain a centralized property valuation matrix that consolidates, for each investment property, the following: (a) legal ownership documents (e.g., titles, deeds, tax declarations); (b) acquisition source and valuation approach; (c) appraisal values, dates, and basis; and (d) justification for any nominal or provisional amounts used.**

1.15 Management explained that a reconciliation and verification process is currently ongoing to determine other identified properties that may qualify for recognition. In line with this, Management is also seeking guidance on the appropriate treatment of the resulting fair values and any corresponding restatements or reclassifications that may need to be reflected in the financial statements of prior reporting periods.

1.16 Management further informed that the initial steps toward determining property valuation were undertaken through the UCPBS's existing monthly monitoring system. It also committed to enhance this system by developing and implementing a centralized property valuation matrix by incorporating the following elements:

- a. Legal ownership documentation – including land titles, tax declarations, and turnover records to support property ownership;
- b. Acquisition source and valuation approach – specifying the mode of acquisition, relevant historical context, and the valuation methodology applied;
- c. Appraisal values, appraisal dates, and basis – to ensure traceability, facilitate periodic updates, and support financial reporting requirements;
- d. Justification for nominal values – applicable in instances where valuation is impracticable due to lack of documentation, with appropriate disclosures and supporting audit trail.

B. NON-FINANCIAL ISSUES

2. The 30 Sales Contract Receivable accounts with an aggregate balance of P143.90 million as at December 31, 2024, which remained long outstanding and in default were not reclassified as Real and Other Properties Acquired due to absence of a definitive timeline for initiating the cancellation of Sales Contract under Section 7 of the UCPBS ROPA Manual, in conjunction with the non-enforcement of the rescission clause under Section 4 of the Contract to Sell, thereby affecting the UCPBS's operating effectiveness on processing cancellation of Sales Contract in the events of default.

2.1. The rescission clauses, which form part of the duly signed Contract to Sell issued by UCPBS is as follows:

4. RECUSION. The buyer hereby undertakes and commits to comply and fulfill all their obligations under this contract. This undertaking and commitment constitute an essential part of the consideration of the sale of PROPERTY. Thus, in the event that the BUYER fails to pay any amortization on the due date thereof as specified in paragraph 2, or fails to comply with any of the terms, conditions or obligations herein mentioned, the SELLER, may, at its sole option and discretion, cancel and rescind this agreement without the need of court declaration to that effect by giving the BUYER a written notice of cancellation, the BUYER peacefully vacate and surrender the PROPERTY within 30 days from demand.

2.2. Section 7 of the UCPBS ROPA [Real and Other Properties Acquired] Manual provides that:

7. Events of Default

7.1 The following shall be considered events of *default* and the Bank may, at its option, cancel or rescind the Sales Contract [SC] thirty (30) days after receipt of the written notice by the buyer:

Failure to pay the Bank any of the instalment/s when due;
Failure to reimburse the Bank of any advances made upon demand; or
Failure to comply with the terms and conditions of the Sales Contract.

7.2 Any amount paid in consideration of the Sales Contract shall be deemed forfeited and shall be considered as payment for the use of the property.

7.3 SCRs shall immediately be reclassified as ROPA upon receipt by the buyer of Notice of Cancellation of Sale

2.3. Sales Contract Receivable (SCR) account of UCPBS pertains to receivables arising from the sale on installment of UCPBS assets owned or acquired which are covered by a duly executed Contract to Sell. These properties are still in the name of UCPBS and shall be transferred to the buyer upon full payment of the agreed selling price and the corresponding accrued interest. The SCR account is debited for the present value

of the installment receivables discounted at imputed rate of interest upon execution of the Contract to Sell and credited whenever installment payment is received.

2.4. A review of the Schedule of SCR as of December 31, 2024 disclosed 30 accounts classified as past due and non-performing. These accounts pertain to installment sales that have remained unpaid beyond their contractual due dates. The details of the account are as follows:

Reference (PN Number)		Status	Outstanding Balance
1	MANUAL-7	Past Due Non Performing	18,980.75
2	122135	Past Due Non Performing	239,054.38
3	122216	Past Due Non Performing	453,667.40
4	121069	Past Due Non Performing	600,066.66
5	121546	Past Due Non Performing	620,075.46
6	122060	Past Due Non Performing	751,823.58
7	120146	Past Due Non Performing	893,945.52
8	121439	Past Due Non Performing	1,033,832.61
9	LG-103	Past Due Non Performing	1,220,743.60
10	LG-108	Past Due Non Performing	1,442,640.16
11	121159	Past Due Non Performing	1,519,712.87
12	MPL1-03	Past Due Non Performing	1,521,397.81
13	MPL1-04	Past Due Non Performing	1,676,412.87
14	LG-110	Past Due Non Performing	2,054,574.61
15	LG-101	Past Due Non Performing	2,765,893.72
16	LG-102-B	Past Due Non Performing	3,597,224.49
17	LG-106	Past Due Non Performing	4,102,273.55
18	MPL1-02	Past Due Non Performing	4,120,400.32
19	LG-102-A	Past Due Non Performing	4,426,196.48
20	LG-105	Past Due Non Performing	4,436,055.98
21	LG-100	Past Due Non Performing	4,791,090.48
22	LG-107	Past Due Non Performing	5,699,928.77
23	LG-109-B	Past Due Non Performing	7,276,438.01
24	LG-104	Past Due Non Performing	8,460,822.01
25	M-02	Past Due Non Performing	8,490,199.86
26	LG-109-A	Past Due Non Performing	12,687,482.65
27	117419	Past Due Non Performing	13,348,661.83
28	M-03	Past Due Non Performing	14,639,547.30
29	M-01	Past Due Non Performing	15,460,877.09
30	MPL1-01	Past Due Non Performing	15,552,761.02
TOTAL			143,902,781.84

2.5. These accounts have remained long outstanding and in default, notwithstanding the existence of contractual and policy-based provisions prescribing the Bank's available remedies, including cancellation of SC and reclassification as ROPA.

2.6. Under Section 4 of UCPBS's Contract to Sell, the Bank is granted the right to unilaterally rescind the agreement in the event of buyer default. The clause explicitly provides that the seller may, at its sole option, cancel the contract through written notice without need for judicial intervention. The buyer is then obligated to vacate and surrender the property within 30 days from demand.

2.7. This rescission remedy is reinforced by Section 7 of the Bank's ROPA Manual, which defines specific events of default including failure to pay installments on time as grounds for cancellation. The Manual further provides that SCR should be reclassified as ROPA upon issuance of the cancellation notice, thereby allowing the Bank to regain possession of the property and pursue alternative recovery or disposal measures.

2.8. Despite clear provisions in both the Contract to Sell and the ROPA Manual authorizing the Bank to rescind the sale in the event of buyer default, review of subsidiary ledgers and SC disclosed that no rescission proceedings were initiated for any of the 30 identified outstanding SCR. These accounts have remained in default for extended periods, yet the corresponding properties continue to be recorded under the Bank's receivables ledger, without evidence of recovery efforts or reclassification.

2.9. This prolonged inaction underscores a gap in operational policy, particularly the absence of a defined timeline or escalation mechanism for initiating rescission procedures. Although the current policy outlines the grounds and process for cancellation, they do not specify when the Bank should commence enforcement following a default event.

2.10. In the absence of a definitive timeline for initiating the cancellation of SC under Section 7 of UCPBS ROPA Manual, in conjunction with the non-enforcement of the rescission clause under Section 4 of its Contract to Sell, the long outstanding and in default 30 SCR accounts totaling to P143.90 million as at December 31, 2024 were not reclassified as ROPA, thereby affecting the UCPBS's operating effectiveness on processing cancellation of Sales Contract in the events of default.

2.11. We recommended and Management agreed to designate the Special Asset Management Department to:

- a) Review and amend the ROPA Manual to incorporate a definitive timeline and escalation protocol for initiating rescission of SC following default. This should include specific triggers such as number of days in arrears for issuing the notice of cancellation, along with designated accountability for monitoring and enforcing compliance;**
- b) Establish a monitoring mechanism for delinquent SCR to ensure timely enforcement of rescission provisions; and**
- c) Rescind/cancel SCR in accordance with ROPA Manual and Section 4 of the UCPBS Contract to Sell, including the reclassification as ROPA, where warranted.**

2.12. Management concurred with the recommendation and committed to revisit and amend the ROPA Manual to include more definitive action steps and timelines. It was specifically emphasized that the Manual will be updated to reflect the policy that rescission shall only be pursued after all other remedial measures have been fully exhausted. Management added that rescission, in certain cases, may involve financial and legal considerations.

2.13. In May 2025, the escalation protocol and timeline for SCR was updated under Chapter V.5.23 of the Guidelines on Underwriting, Documentation, and Booking of SCR in the ROPA Manual. Under the revised provision, the deadline set in the demand letter for account updating shall be no later than the 60th day from the missed amortization schedule.

2.14. While Management expressed concurrence with the recommendation and committed to amending the ROPA Manual, particularly with respect to defining timelines and procedures for the rescission of Sales Contracts, the response focused primarily on policy enhancement and the conditions under which rescission may be pursued. The specific recommendation to establish a monitoring mechanism for delinquent SCR, which is intended to support the timely enforcement of rescission provisions, was not explicitly addressed. This component may be given further consideration to strengthen oversight and facilitate the prompt application of contractual remedies in cases of default. The establishment of a monitoring mechanism is considered integral to the effective implementation of rescission protocols, as policy clarity must be supported by operational systems that enable consistent tracking and timely escalation of delinquent accounts.

3. The Cash-in-Vault balances of several UCPBS branch offices exceeded the prescribed limits set under the Branch Operations Manual on Cash Management, indicating non-compliance with internal cash ceiling policies and a departure from the Bank's established internal control framework over cash management.

3.1. Chapter I of the Bank's Branch Operations Manual on Cash Management particularly on the Cash in Vault – Cash Ceiling states that:

- 1.1. The Branch Operations Officer (BOO) shall ensure that the CIV level is maintained within the branch's benchmark and should not exceed the branch's CIV insurance coverage. The CIV limit shall be computed by analyzing prior year's average daily cash requirements of the branch after considering all cash deposits, miscellaneous cash receipts, cash withdrawals, encashment and miscellaneous cash outs.
- 1.2. End of day CIV balance shall be sufficient enough to service requirements for the following day, plus/minus expected net receipts/withdrawals. Ideally, this should not exceed 3% to the total deposits.
- 1.3. In the event that the CIV balance exceeds the ceiling level, branches shall undertake the following:
 - a. For branches with deposit pick up arrangements with UCPB / Local Banks, the Branch Operation Officer (BOO)/ Senior Teller (ST) shall immediately request for pick-up of excess cash by servicing Cash Center / Local Bank;
 - b. For branches without pick-up service, excess cash shall be deposited to depository Bank or the Regional BSP Cash Center, if applicable;
 - c. Extend cash assistance to other branches/other local Banks/UCPB in need of cash subject to existing guidelines on cash assistance;
- 1.4. The Branch should relay the CIV level directly to BBD at the end of the day.

3.2. As of December 31, 2024, the UCPBS operates 49 branches, along with 10 branch-lite offices and 4 lending offices, all of which maintain their own operational cash balances. In accordance with Sections 1.1 and 1.2 of the Bank's Branch Operations Manual on Cash Management, each branch is required to maintain its CIV within a prescribed benchmark based on prior year average daily cash requirements and adjusted for anticipated net cash transactions. The Manual further provides that end-of-day CIV balances should ideally not exceed 3% of total deposits.

3.3. A review of the CIV balances of UCPBS branches for the period January to December 2024 disclosed recurring instances where branch-level cash holdings exceeded the ceiling benchmarks prescribed under the Bank's Branch Operations Manual on Cash Management. Based on available records, several branch offices recorded month-end CIV balances above their respective approved limits in various months throughout the year. These instances are summarized in the table as follows:

Month 2024	No. of Branches that exceeded the CIV Limit Benchmark	Total Excess Cash In Vault (CIV)	Percentage (Excess/Benchmark)
January	19	57,906,287.64	41.96
February	25	44,057,902.39	32.28
March	7	14,818,446.91	44.90
April	14	72,608,446.91	47.93
May	15	45,799,260.25	33.70
June	3	13,412,647.80	74.51
July	11	13,746,151.92	19.78
August	12	17,862,136.63	19.10
September	20	86,904,236.88	62.30
October	17	35,928,301.13	30.07
November	18	43,648,865.78	38.12
December	18	107,252,651.43	94.91

3.4. The table presents a month-by-month summary of branches that exceeded their respective CIV ceiling benchmarks, including the corresponding total excess amounts and the percentage of excess over the benchmark from January to December 2024. It reflects both the frequency and magnitude of excess cash holdings across the Bank's branch network over the covered period.

3.5. Throughout the 12-month period, data shows that each month had branches with month-end CIV balances in excess of their approved limits, with the number of non-compliant branches ranging from 3 (June) to 25 (February). The total value of excess cash held above the ceiling benchmark varied across the year, ranging from P13.41 million (June) to P107.25 million (December).

3.6. In terms of proportional variance, the percentage of excess over the prescribed ceiling was 94.91 per cent in December, with other significant months including:

September	P86.90 million excess (62.30%)
April	P72.61 million excess (49.73%)
March	P14.82 million excess (44.90%) despite involving only 7 branches
June	P13.412 million excess (74.51%)

3.7. At least 9 of 12 months recorded percentage variances above 30 per cent, suggesting that the excesses were not isolated or exceptional cases but occurred with frequency and in substantial amounts. While the higher variance observed in December may be partly attributable to increased cash requirements during the holiday season, the consistent occurrence of excesses across most months supports the audit observation that certain branch offices maintained CIV balances beyond the thresholds prescribed under Section 1.1 of the Bank's Branch Operations Manual on Cash Management.

3.8. Management attributed the breaches of CIV benchmark ceilings observed across various branches and months to a range of operational and logistical factors encountered at the branch level. The BOOs explained that a significant portion of the CIV excesses resulted from the inflow of bulk or late-day cash deposits, particularly those related to loan buyouts, loan repayments, and unanticipated over-the-counter transactions. Due to their timing, often occurring after the scheduled armored vehicle pick-up, these deposits increased end-of-day cash balances beyond the thresholds established under Section 1.1 of the Bank's Branch Operations Manual on Cash Management.

3.9. In addition, the BOOs of several branches cited constraints in the availability of armored transport, particularly those in geographically distant areas or with lower transaction volumes. Some locations lacked dedicated branch vehicles, while others were subject to internal security protocols requiring coordination with the Bank's security unit at least two days in advance, including confirmation of guard availability. These procedural requirements further reduced the agility of branches in responding to excess CIV conditions.

3.10. On the other hand, the BOOs of certain branches also noted the practice of temporarily retaining excess cash to anticipate automated teller machine cash replenishment needs, particularly during payroll periods, weekends, or local peak transaction dates.

3.11. However, under Sections 1.1 to 1.3 of the Bank's Branch Operations Manual on Cash Management, branch cash holdings are required to remain within ceiling levels determined by historical cash requirements. Any excess must be addressed through prescribed corrective measures under Section 1.3, such as immediate pick-up, deposit to a depository or BSP cash center, or extension of cash assistance to other branches. The Manual does not provide exceptions based on logistical constraints or operational timing.

3.12. Management explained that remedial actions were, in some cases, deferred or not implemented due to the anticipated near-term use of the cash or the lead time required to coordinate transport and security arrangements. While these factors may account for the timing of the cash overages, they do not exempt the Bank from complying with established cash limits or from initiating the required corrective measures in cases of excess, as prescribed under Section 1.3 of the Bank's Branch Operations Manual on Cash Management.

3.13. The continued practice of retaining CIV balances in excess of prescribed ceilings, notwithstanding the justifications cited, constitutes a deviation from internal policy. The provisions of the Bank's Branch Operations Manual on Cash Management Manual are categorical, and adherence to its directives is essential to maintaining effective cash management controls. Holding cash beyond established benchmarks and insurance limits may result in amounts not fully covered by insurance and may exceed operational risk

thresholds designed to mitigate exposure to theft, loss, or other adverse events. Furthermore, the absence of timely corrective action reflects lapses in internal control execution and may indicate weaknesses in policy compliance at the branch level.

3.14. Moving forward, adherence to Sections 1.1 to 1.3 of the Bank's Branch Operations Manual on Cash Management must be reaffirmed as a non-negotiable component of the Bank's internal control framework. This may warrant enhancement of logistics support, increased frequency of pick-up schedules, or revision of cash forecasting procedures. Until such reforms are in place, the current practice remains inconsistent with established internal policies and exposes the Bank to control risk.

3.15. **We recommended and Management agreed that the Branch Banking Group:**

- a) **Re-evaluate the current CIV benchmarks per branch taking into account updated transaction patterns, servicing limitations, and actual cash requirements, in accordance with Section 1.1 of the Bank's Branch Operations Manual on Cash Management;**
- b) **Require branches to monitor CIV levels daily and immediately report any excess to the supervising unit, with justification and action taken, using a standard reporting template;**
- c) **Reassess existing cash servicing arrangements and coordinate with providers to increase pick-up frequency in high-risk or high-volume branches, where feasible; and**
- d) **Reiterate the mandatory implementation of Section 1.3 of the Bank's Branch Operations Manual on Cash Management by requiring that any CIV balance exceeding the approved ceiling be addressed within the next business day through deposit, inter-branch cash transfer, or other authorized means, with proper documentation of the action taken.**

3.16. Management clarified, however, that while the operational challenges are valid considerations, they do not absolve branches from compliance with the Bank's established cash ceiling policies. It was affirmed that following the UCPBS's merger with the LBP in February 2022, CIV monitoring has been fully integrated into LBP's internal control framework.

3.17. Management reported the implementation of corrective measures to strengthen compliance with CIV ceilings and mitigate operational risks. These include the submission of daily and midday CIV reports to support early detection of overages, and the full transition to Deposit Pick-Up arrangements with LBP following the expiration of armored car contracts in October 2024. For branches not covered by cash service providers, local bank accounts were temporarily used to facilitate immediate deposits, but have since been closed as DPU coverage expanded.

3.18. CIV ceilings are being reassessed per branch based on transaction volume, servicing constraints, and operational requirements. BOOs have been directed to resolve any overages by the next business day through authorized channels, with excess cash

insured the following day. Compliance is monitored through internal audits, monthly reporting, and spot checks, with results used to guide capacity-building efforts.

3.19. Management acknowledged that operational coordination issues contributed to the overages and took full responsibility for the lapses. A branch-level compliance plan has been rolled out to standardize escalation protocols and improve risk awareness. Performance metrics for CIV compliance are also being integrated into the branch scorecard system.

4. The UCPBS fell short of the required targets for its Current and Savings Account balance and Non-Performing Loan ratio as of December 31, 2024, as set in its Performance Scorecard approved by the Governance Commission for GOCCs, in accordance with GCG Memorandum Circular No. 2024-01, which indicates lack of effective and efficient planning and implementation of strategies to sustain deposit level and quality of loan portfolio.

4.1 The Governance Commission for Government Owned or Controlled Corporation (GCG) issued GCG Memorandum Circular No. 2024-01 dated June 28, 2024 on the Enhanced Performance Evaluation System (PES) for the GOCC Sector with the following relevant provisions:

1. xxx

The PES sets the process of appraising the accomplishments of GOCCs in a given fiscal year based on set performance criteria, targets and weights. Using the Performance Scorecard as a governance and management tool, it aims to facilitate the achievement of breakthrough result and performance through the effective and efficient monitoring and coordination of the Strategic Objectives of the GOCC.

3. PURPOSE - the PES shall provide the framework for setting the organizational targets of a GOCC. The achievement of such targets shall serve as basis for the following:

- (a) Determining the grant of Performance -Based Bonus (PBB) and Performance-Based Incentives (PIB)
- (b) Determining whether Appointive Directors are eligible for reappointment as a component of the Performance Evaluation for Directors (PED);
- (c) Ascertaining whether such GOCC should be reorganized, merged, streamlined, abolished or privatized; and
- (d) Determining whether a special audit of the GOCC is necessary.

4. Performance Scorecards - The performance of a GOCC shall be evaluated based on a Performance Scorecard approved by the GCG. “

4.2 In support of performance monitoring and accountability, the CY 2024 GCG-approved Performance Scorecard for UCPBS, pursuant to GCG Memorandum Circular No. 2024-01, sets specific financial Key Performance Indicators (KPIs) that reflect the Bank’s annual performance commitments. These indicators are aligned with the Bank’s

strategic objectives and are designed to promote financial sustainability, strengthen credit discipline, and enhance operational efficiency. For the year 2024, the following KPIs were prescribed under UCPBS Scorecard:

- a. Current and Savings Account (CASA) Deposit Target – P10,786,000,000.00
- b. Non-Performing Loan (NPL) Ratio Ceiling – Not to exceed 22.16 per cent of the total loan portfolio

4.3 As of December 31, 2024, a comparison of UCPBS's actual performance against the prescribed targets under its GCG-approved Performance Scorecard reveals non-attainment of its financial KPIs. Specifically, the Bank did not meet the CASA deposit target nor maintain its NPL ratio within the allowable ceiling, as detailed below:

Particulars	Target	Actual	Variance (Short) / Over
CASA	P10,786,394,702.00	P 8,947,523,432.56	(P1,838,871,269.44)
NPL Ratio Ceiling	22.16%	31.27%	9.11%

4.4 As shown in the table above, the Bank reported variance on CASA deposit target by P1,838,871,269.44, or 17.05 per cent and NPL ratio exceeding the prescribed ceiling by 9.11 per cent, as set in its CY 2024 GCG-approved Performance Scorecard as of December 31, 2024. The CASA deposits serve as a key source of low-cost and stable funding to support the Bank's lending and investment operations. While, the Bank's NPL ratio reflects the quality of the Bank's loan portfolio and its exposure to credit risk.

4.5 Management attributed the shortfall in the CASA deposit target primarily to the Bank's limited digital banking infrastructure, which has constrained its ability to attract and retain low-cost deposits. The absence of fully operational online and mobile banking platforms was cited as a significant limitation, particularly in light of the growing reliance of retail and institutional clients on digital channels for routine banking transactions.

4.6 In addition, reputational challenges stemming from the legacy of UCPB and the Bank's successive changes in ownership were cited as contributing factors to depositor hesitation and reduced client confidence. Management acknowledged that despite ongoing rebranding and integration efforts, regaining trust in the Bank's long-term stability remains a work in progress.

4.7 With respect to the elevated NPL ratio, Management attributed the variance primarily to the continued accumulation of long-outstanding and unresolved loan accounts. These accounts, many of which originated in prior periods, have remained in the Bank's books due to challenges in enforcement, recovery, or restructuring. Management acknowledged that these legacy accounts reflect residual weaknesses in historical credit management practices and loan remediation efforts, compounded by their complexity and age. In response, the Bank is intensifying its collection and recovery activities and implementing structural reforms to address the root causes of NPL accumulation. Additionally, Management reiterated that it had previously requested the GCG to consider actual NPL reduction as a performance metric rather than benchmarking against industry ratios given the Bank's inherited portfolio of large, long-outstanding accounts. However, this request was not adopted in the GCG's scoring methodology.

4.8 The foregoing factors collectively contributed to UCPBS's inability to meet its performance targets for CASA balance and NPL ratio as of December 31, 2024. These indicators form part of the Bank's Performance Scorecard approved by the GCG, pursuant to GCG Memorandum Circular No. 2024-01. Under said Circular, material deviations from approved targets are subject to regulatory oversight, which may include special audits or governance reviews. In addition, sustained underperformance may have implications on the Bank's eligibility for performance-based incentives, the reappointment of appointive directors, and the assignment of governance ratings. These outcomes underscore the urgency of an effective and efficient planning and implementation of corrective strategies to sustain its deposit level and the quality of loan portfolio, and ensure alignment with GCG's performance governance standards.

4.9 We recommended and Management agreed that the Branch Banking Division and Asset Recovery Division:

a) Review UCPBS's performance targets under the GCG-approved Scorecard, using the results of the review as basis for recalibrating internal performance planning and for ensuring that future performance targets proposed to the GCG are realistic and aligned with the Bank's prevailing institutional conditions, operational constraints, and implementation timelines; and

b) Implement strategic enhancements in credit solicitation, administration, and monitoring processes to strengthen credit risk management and support efforts to address long outstanding non-performing loan issues, while also contributing to improved depositor confidence and engagement.

4.10 Management disclosed that, as part of its strategic shift towards digital platform, the Bank is in the process of procuring a new Core Banking System aimed at enhancing service delivery and strengthening its competitiveness in digital banking landscape.

4.11 Likewise, Management reaffirmed its commitment to improving performance in both CASA mobilization and NPL reduction to meet GCG targets moving forward. In line with COA's recommendations, the Bank reported the following initiatives:

- a. Internal performance planning processes are being refined to ensure future targets are realistically aligned with institutional capacity, operational constraints, and implementation timelines.
- b. Ongoing recalibration of internal targets is being undertaken to reflect prevailing economic conditions while upholding accountability and performance commitments.
- c. Measures are being implemented to improve credit solicitation, loan monitoring, and delinquency management.
- d. Policy and system upgrades are underway to reduce NPLs and resolve legacy accounts.
- e. Digital banking enhancements are in progress to support CASA growth and improve depositor engagement.

Gender and Development (GAD)

5. The GAD budget for CY 2024 amounted to P70.625 million, which represents 5.09 per cent of the approved Corporate Operating Budget (COB) of P1,387.565 million for the year. The GAD budget utilization amounted to P0.023 million, or 0.032 per cent of the COB. Of the 12 programmed GAD activities for CY 2024, 3 were fully implemented, while 9 were not implemented.

Compliance with Tax Laws

6. Information on taxes, duties and license fees paid or accrued during the taxable year 2024 is disclosed in Note 32, Supplementary Information Required by the BIR to the Financial Statements. The taxes withheld from compensation, benefits and other sources amounting to P97.188 million were remitted to the BIR in accordance with the deadlines on payment/remittance of taxes prescribed under the National Internal Revenue Code.

6.1 On December 17, 2024, the Bank received a tax assessment from the BIR amounting to P73.35 million, covering the taxable year 2021. The assessment pertains to alleged deficiencies in Income Tax, Withholding tax on Compensation, Fringe Benefits Tax, Expanded Withholding Tax, Final Withholding of VAT and Registration Fees, inclusive of penalties and interest.

6.2 The Bank, in consultation with its legal and the Office of the Government Corporate Counsel (OGCC), has filed a formal request for reinvestigation on January 16, 2025, contesting the findings based on alleged discrepancies, documentary evidences and procedural issues. The case is currently under review by the BIR.

6.3 The Bank's Management and its legal counsel believe that the Bank has valid grounds to contest the assessment, and as such, no provision was recognized in the financial statements as at December 31, 2024. The Bank will continue to monitor developments and assess any financial impact that may arise from the resolution of the case.

6.4 As of December 31, 2024, the Bank is undergoing a tax audit by the BIR for the taxable year 2021.

SSS, Philhealth and Pag-IBIG Fund Premiums

7. In 2024, the Bank complied with RA No. 8282 on the collection and remittance of contributions to SSS as follows:

- a. Mandatory monthly contribution of covered employees and employer in accordance with Section 18; and
- b. Remittance of employees' and employer's contributions and employees' compensation premium within the due date pursuant to Section 19.

7.1 The Bank also complied with Title III, Rule III, Section 18 of the Implementing Rules and Regulations (IRR) of RA No. 7875, as amended, in the payment of national health insurance premium contributions to PhilHealth.

7.2 The Bank also complied with Rule VII, Sections 2 and 3 of the IRR of RA No. 9679 (Home Development Mutual Fund Law of 2009, otherwise known as Pag-IBIG Fund), in the collection and remittance of contributions to the Pag-IBIG Fund.

Status of Audit Suspensions, Disallowances and Charges

8. There were no balances of audit suspensions, disallowances and charges as of year-end.

**STATUS OF IMPLEMENTATION OF PRIOR YEARS'
AUDIT RECOMMENDATIONS**

Of the nine audit recommendations embodied in the CY 2022 and 2023 Annual Audit Reports, seven were implemented, and two were not implemented. The audit observations with the corresponding not implemented recommendations are presented below:

Reference	Audit		Status of Implementation
	Observation	Recommendation	
CY 2023 AAR Observation No. 2, pages 101 to 103	ROPA with aggregate net book value of P62.040 million as of December 31, 2023, recognized in the Investment Properties account, were not appraised for more than two years, contrary to BSP Circular No. 520, series of 2006 and the UCPBS ROPA Manual.	Conduct appraisal of the ROPA of the Bank at the frequency required in the BSP Circular No. 520 and the UCPBS ROPA Manual.	Not Implemented. The ROPA requiring appraisal have been updated, except for 25 properties that were acquired from merged banks. These ROPA lack supporting documents to establish Bank ownership and were therefore not yet subjected to appraisal. The Bank is currently verifying ownership and existence through coordination with government agencies, including Local Government Units. Depending on the outcome, the Bank will either initiate appraisal for disposal or seek Board approval for delisting from the ROPA registry. The verification process is ongoing, and the Bank commits to exhaust all available means to support proper resolution of these accounts.

Reference	Audit		Status of Implementation
	Observation	Recommendation	
CY 2022 AAR Observation No. 4 pages 104 to 106	Ownership to seven parcels of Land costing P1.012 million, recognized under Bank premises, furniture, fixtures and equipment, and right of use asset, net, was not established due to the absence of Transfer Certificates of Titles (TCTs).	Facilitate the transfer of titles of the seven parcels of land under the Bank's name.	Not implemented. For the two parcels of land evidenced by tax declarations, the Bank has initiated the process of securing Original TCTs . The services of a geodetic surveyor were procured on May 15, 2024. As for the five other parcels, the Bank affirms its position pursuant to Section 79(d) of the Revised Corporation Code of the Philippines, which provides that in the event of a merger, all rights, privileges, properties, branches, offices, and franchises of the absorbed entity are transferred by operation of law to the surviving corporation, without the need for further act or deed. The Bank maintains that ownership over the properties remains valid despite the absence of updated titles, as these properties are under its control and are currently being utilized as branch offices. Nonetheless, the Bank has initiated the process of transferring the corresponding TCTs under the name of UCPBS. Appraisals have been completed, and coordination with the Office of the

Reference	Audit		Status of Implementation
	Observation	Recommendation	
			Government Corporate Counsel is ongoing to determine the most practical and cost-efficient approach to titling the subject properties.