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, 2025 and 2024

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, 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) classifying UCPB Savings Bank Inc., as a Government Owned or Controlled Corporation (GOCC)/Government Financial Institution (GFI), now covered by Republic Act (R.A.) No. 10149.

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

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

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

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

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 Bangko Sentral ng Pilipinas, 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, s2021 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.

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

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

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 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.

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, 2025, the Bank operates 48 branches with 12 branch lite offices and three 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.

SCOPE OF AUDIT

Our audit covered the examination, on a test basis, of UCPBS transactions and accounts for the period January 1 to December 31, 2025 in accordance with the International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements for the year ended December 31, 2025 and 2024 in accordance with the International Standards of Supreme Audit Institutions. Also, the audit aimed 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	2025	2024	Increase
Assets	19,108,313,310	17,513,961,138	1,594,352,172
Liabilities	16,582,656,084	15,134,719,929	1,447,936,155
Equity	2,525,657,226	2,379,241,209	146,416,017

II. Comparative Results of Operations

Particulars	2025	2024	Increase (Decrease)
Revenues	1,599,202,314	1,394,146,498	205,055,816
Interest expense	(369,101,492)	(303,491,021)	(65,610,471)
Impairment gain	72,491,366	0	72,491,366
Other operating expenses	(1,089,883,990)	(976,940,876)	(112,943,114)
Profit before tax	**212,708,198**	**113,714,601**	98,993,597
Tax expense	(67,224,889)	(50,364,295)	(16,860,594)
Net profit	**145,483,309**	**63,350,306**	82,133,003
Other comprehensive income	3,624,032	(3,377,635)	7,001,667
Total comprehensive income	**149,107,341**	**59,972,671**	89,134,670

III. Comparative Budget and Actual Expenditures

	2025		2024	
	Approved Budget	**Expenditures**	**Approved Budget**	**Expenditures**
Personal Services	504,364,037	481,974,784	526,952,070	457,713,975
Maintenance and Other Operating Expense	640,213,014	496,619,888	591,064,704	521,236,044
Capital Outlay	412,326,725	125,303,344	269,548,671	70,442,707
Total	**1,556,903,776**	**1,103,898,016**	**1,387,565,445**	**1,049,932,726**

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, 2025 and 2024.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. **The Deferred Tax Assets (DTA) amounting to P737.023 million as of December 31, 2025 continued to be recognized without an assessment demonstrating the probability that sufficient future taxable profit will be available to utilize the DTA, as required under Paragraphs 24 and 56 of Philippine Accounting Standard 12, thereby creating uncertainty as to the recoverability and fair presentation of the DTA balances in the financial statements.**

We recommended and Management agreed that through the Accounting Department, in coordination with the concerned tax and financial reporting units, to:

a) Perform and document a periodic DTA recoverability assessment at each reporting date, taking into consideration, among others, the nature and timing of reversal of deductible temporary differences, the utilization of excess MCIT credits and other tax benefits, historical and projected taxable profits, and other relevant evidence supporting the probability that sufficient future taxable profits will be available to utilize the recognized DTA; and

b) Consider reassessing the carrying amount of the recognized DTA and recognizing any necessary adjustments based on the results of such assessment.

2. **Real and Other Properties Acquired comprising 493 properties with a carrying value of P678.240 million were classified and presented as Investment Properties despite being actively offered for sale under the Bank's disposal program, thus met the classification criteria for Non-Current Assets Held for Sale under paragraphs 6 to 9 of Philippine Financial Reporting Standard 5, and thereby resulting in the overstatement of Investment Property and corresponding understatement of Non-Current Assets Held for Sale by the same amount as of December 31, 2025.**

We recommended and Management agreed, that through the Asset Recovery and Management Division (ARMD), particularly the SAMD, in coordination with the Accounting Department (AD), to:

(a) Conduct a comprehensive assessment of all acquired properties currently classified as Investment Properties and determine, based on the criteria prescribed under PAS 40 and paragraphs 6 to 9 of PFRS 5, whether the carrying amount of each property is expected to be recovered principally through sale transactions rather than through continuing use, and reclassify those properties that satisfy the requirements of Non-Current Assets Held for Sale;

(b) Establish and implement formal policies and procedures governing the classification and reclassification of acquired properties, including the criteria, responsible units, supporting documentation requirements, monitoring mechanisms, and circumstances that would warrant the transfer of properties between Investment Property and Non-Current Assets Held for Sale accounts in accordance with PAS 40 and PFRS 5;

(c) Require the periodic review of properties classified as Investment Properties and Non-Current Assets Held for Sale to ensure that their accounting classification remains consistent with the purpose for which the properties are held, Management's disposition plans, and the applicable requirements of Philippine Financial Reporting Standards; and

(d) Reassess the classification of the 493 acquired properties amounting to P678,239,759.58 that are currently being subjected to public auction, negotiated sale, and other disposal activities, and record the necessary reclassification adjustments in the financial statements.

SUMMARY OF SUSPENSIONS, DISALLOWANCES AND CHARGES

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

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 13 audit recommendations embodied in the CY 2024 Annual Audit Report, 12 were implemented, and one was not implemented.

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PART I

AUDITED FINANCIAL STATEMENTS

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, 2025 and 2024, 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, 2025 and 2024, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS) Accounting Standards, 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 PFRS Accounting Standards, 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, 2025 and 2024 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 PFRS Accounting Standards, 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 PFRS Accounting Standards, 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 30 and the Revenue Regulations 15-2010 in Note 31 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-LADORES
OIC-Supervising Auditor

June 30, 2026

June 25, 2026

UCPB SAVINGS

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of UCPB Savings Bank, Inc. (the Bank) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2025 and 2024, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

LIDUVINO S. GERON
Chairman of the Board

LIZETTE MARGARET MARY J. RACELA
President and Chief Executive Officer

IRENE S. QUINTANA
Comptroller

UCPB Savings Bank, Inc.
(A subsidiary of Land Bank of the Philippines)
STATEMENTS OF FINANCIAL POSITION
December 31, 2025 and 2024
(Amounts in Philippine Peso)

	Note	2025	2024 (As restated)
ASSETS			
Cash and other cash items	10	637,544,055	448,385,451
Due from Bangko Sentral ng Pilipinas	10	1,074,559,565	1,265,855,021
Due from other banks	10	371,695,514	304,734,831
Securities Purchased under Resale Agreements	10	1,380,000,000	0
Financial assets at fair value through profit or loss	11.1	151,553,380	352,837,402
Financial assets at fair value through other comprehensive income	11.2	959,376,832	1,403,787,234
Financial assets at amortized cost, net	11.3	301,306,669	308,128,770
Loans and receivables, net	12	12,049,109,762	11,370,460,575
Bank premises, furniture, fixtures and equipment, and right of use asset, net	13	294,520,057	251,552,876
Investment properties, net	15	942,850,101	1,032,859,255
Assets held for sale, net	16	196,477,411	19,190,180
Intangible and other resources, net	17	119,803,974	102,991,245
Deferred tax assets, net	26	629,515,990	653,178,298
TOTAL ASSETS		**19,108,313,310**	**17,513,961,138**
LIABILITIES AND EQUITY			
Deposit liabilities	19	15,890,300,383	14,537,391,427
Accrued interest, taxes and other expenses	20	138,894,260	113,945,484
Income tax payable		3,409,759	2,888,352
Retirement liability	23.2	24,008,484	30,108,935
Other liabilities	21	526,043,198	450,385,731
TOTAL LIABILITIES		**16,582,656,084**	**15,134,719,929**
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	(22,938,984)	(26,563,016)
Surplus reserves	27.3	76,652,987	3,458,283
Surplus		1,365,185,911	1,295,588,630
EQUITY	27	**2,525,657,226**	**2,379,241,209**
TOTAL LIABILITIES AND EQUITY		**19,108,313,310**	**17,513,961,138**

The Notes on pages 10 to 100 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, 2025 and 2024
(Amounts in Philippine Peso)

	Note	2025	2024
Interest income			
Loans and receivables	12	987,564,130	938,570,202
Trading and investment securities	11.4	102,102,589	106,745,861
Due from BSP and other banks	10	61,663,907	34,932,279
Securities purchased under resale agreements	10	36,935,758	30,601,833
		1,188,266,384	**1,110,850,175**
Interest expense			
Deposit liabilities	19	(357,386,760)	(293,321,610)
Interest expense - leases	14.3	(11,714,732)	(10,169,411)
		(369,101,492)	**(303,491,021)**
Net interest income		**819,164,892**	**807,359,154**
Impairment gain - net		72,491,366	0
Net interest income after impairment		**891,656,258**	**807,359,154**
Other operating income			
Service fees		292,522,220	231,758,765
Gain on sale and foreclosure of assets - net	15,16	101,758,900	45,337,603
Trading and securities gains - net	11.1	2,615,048	
Miscellaneous	24	14,039,762	6,199,955
		410,935,930	**283,296,323**
Other operating expenses			
Salaries and employee benefits	23.1	(521,767,743)	(457,337,384)
Depreciation and amortization	13,15, 17	(130,759,595)	(123,085,099)
Taxes and licenses	31	(131,780,368)	(111,591,260)
Occupancy		(63,074,999)	(67,680,774)
Security, messengerial and janitorial		(60,560,063)	(55,548,468)
Insurance		(38,390,042)	(35,423,638)
Litigation		(23,980,335)	(11,238,794)
Transportation and travel		(15,404,868)	(11,494,164)
Management and other professional fees		(4,094,693)	(3,518,038)
Entertainment, amusement and recreation		(2,732,363)	(1,577,424)
Trading and securities losses - net			(398,779)
Miscellaneous	25	(97,338,921)	(98,047,054)
		(1,089,883,990)	**(976,940,876)**
Profit before tax		**212,708,198**	**113,714,601**
Tax expense	26	(67,224,889)	(50,364,295)
Net profit		**145,483,309**	**63,350,306**

The Notes on pages 10 to 100 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, 2025 and 2024
(Amounts in Philippine Peso)

	Notes	2025	2024
NET PROFIT		**145,483,309**	**63,350,306**
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	4,575,338	1,297,680
Net unrealized loss on financial assets at fair value through other comprehensive income	11.2	(951,306)	(4,675,315)
Other comprehensive income/(loss)		**3,624,032**	**(3,377,635)**
TOTAL COMPREHENSIVE INCOME		**149,107,341**	**59,972,671**

The Notes on pages 10 to 100 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, 2025 and 2024
(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, 2025						
As previously reported	717,249,027	389,508,285	(26,563,016)	3,458,283	1,295,588,630	2,379,241,209
Appropriation during the year				73,194,704	(73,194,704)	0
Adjustment for expired MCIT					(2,691,324)	(2,691,324)
Other comprehensive loss			3,624,032	0	0	3,624,032
Net income for the year					145,483,309	145,483,309
Balance at December 31, 2025	717,249,027	389,508,285	(22,938,984)	76,652,987	1,365,185,911	2,525,657,226
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
Effect of prior period recognition of unbooked gain on foreclosure of ROPA					302,723,186	302,723,186
Effect of additional Expected Credit Losses for year 2024					(430,248,877)	(430,248,877)
As restated	717,249,027	389,508,285	(23,185,381)	11,400,803	1,224,295,804	2,319,268,538
Appropriation during the year				(7,942,520)	7,942,520	0
Other comprehensive income			(3,377,635)	0	0	(3,377,635)
Net income for the year					63,350,306	63,350,306
Balance at December 31, 2024, As restated	717,249,027	389,508,285	(26,563,016)	3,458,283	1,295,588,630	2,379,241,209

The Notes on pages 10 to 100 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, 2025 and 2024
(Amounts in Philippine Peso)

	Note	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		865,518,041	1,108,558,338
Interest paid		(306,074,149)	(308,278,937)
Fees and commission received		292,522,220	231,758,765
Gain on financial assets and liabilities-FVPL	11.1	(1,015,768)	857,198
Miscellaneous Income		10,823,296	3,215,728
General and administrative expenses		(959,124,395)	(853,456,998)
Operating income/(loss) before changes in operating assets and liabilities		(97,350,755)	182,654,094
Changes in operating assets and liabilities			
(Increase)/Decrease in operating assets and liabilities			
FA-Fair value through profit or loss		204,914,838	(155,495,395)
FA-Fair value through other comprehensive income		443,459,096	(99,476,325)
FA-Amortized Cost		6,822,101	835,433
Loans and receivable		(100,776,792)	(234,058,020)
Other Assets		(205,436,616)	(3,140,886)
Increase/(Decrease) in operating assets and liabilities			
Deposit Liabilities		1,289,881,613	(7,560,604)
Accrued taxes, interest and other expenses		24,948,776	(15,866,540)
Other Liabilities		106,482,728	35,713,835
Net cash provided by (used in) from Operations		**1,672,944,989**	**(296,394,408)**
Income Taxes Paid		0	0
Net cash provided by (used in) from operating activities		**1,672,944,989**	**(296,394,408)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	13	(139,243,905)	(151,004,355)
Disposal of property and equipment		376,850	1,232,179
Addition to intangible and other assets	17	(24,110,575)	(25,084,764)
Net cash used in investing activities		**(162,977,630)**	**(174,856,940)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease liabilities	14.3	(65,143,528)	(54,171,158)
Net cash used in financing activities		**(65,143,528)**	**(54,171,158)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,444,823,831**	**(525,422,506)**
CASH AND CASH EQUIVALENTS AT JANUARY 1, 2025	10	**2,018,975,303**	**2,544,397,809**
CASH AND CASH EQUIVALENTS AT DECEMBER 31, 2025	10	**3,463,799,134**	**2,018,975,303**

The Notes on pages 10 to 100 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, 2025 AND 2024
(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 GOCC is defined as:

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

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

(m) GFIs refer to financial institutions or corporations in which **the government directly or indirectly owns majority of the capital stock** and which are either: (1) registered with or directly supervised by the Bangko Sentral ng Plipinas (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, s2021 titled "Approving the Merger of Land Bank of the Philippines (LBP) and the United Coconut Planters Bank (UCPB), and the acquisition by the LBP of the Special Preferred Shares of the Philippine Deposit Insurance Corporation (PDIC) in the UCPB" was signed by the President of the Republic of the Philippines, whereby the latter bank shall emerge as the surviving entity, subject to the requisite approvals from the SEC, and to the conditions and limitations under RA Nos. 11524 and 11232 or the Revised Corporation Code of the Philippines.

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

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

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 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.

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, 2025, the Bank operates 48 branches with 12 branch lite offices and three 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 (PFRS Accounting Standards)

(a) Statement of Compliance with Philippine Financial Reporting Standards (PFRS) Accounting Standards.

The accompanying financial statements have been prepared in accordance with PFRS Accounting Standards, as modified by the application of the following financial reporting reliefs issued by the BSP Memorandum M-2020-08 Regulatory Relief for BSP Supervised Financial Institutions (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, 2025, no remaining ACL balance for staggered booking. 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 PFRS Accounting Standards 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, 2025 (including the comparative financial statements as of and for the year ended December 31, 2024 were approved and authorized for issue by the Bank on June 25, 2026.

Restatement of Prior Year Financial Statements

The Bank recognized prior period adjustments arising from the recognition of additional Expected Credit Losses (ECL) amounting to P430.25 million and previously unbooked gain on foreclosure of ROPA amounting to P302.72 million, resulting in a net adjustment to opening surplus of P127.52 million

The restatement pertained solely to the balances of selected asset accounts and equity. No restatement was made to the statements of income and other comprehensive income, cash flows, and related income and expense accounts, as follows:

(i) Summary of Adjustments to the Statement of Financial Position

Account	Nature of Adjustment	Adjustment
Loans and Receivables	Recognition of additional Expected Credit Losses (ECL)	(430,248,877)
Investment Properties	Recognition of previously unbooked ROPA – land, including gain on foreclosure	302,723,186
Net Adjustment to Surplus		**(127,525,691)**

(ii) Impact on Equity

Particulars	2024
Surplus, as previously reported, January 1, 2024	1,351,821,495
Effect of prior period recognition of previously unbooked ROPA – Land, including gain on foreclosure of ROPA	302,723,186
Effect of additional Expected Credit Losses (ECL) for CY 2024	(430,248,877)
Appropriation during the year	7,942,520
Net income for the year	63,350,306
Surplus, as restated – December 31, 2024	**1,295,588,630**

The above restatement resulted only in the correction of balances in the statement of financial position. Comparative information in the other primary financial statements was not restated, as the adjustments relate solely to the recognition and measurement of asset balances as of December 31, 2024.

3. NEW OR REVISED STANDARDS

(a) Effective in 2025 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, 2025:

(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). The amendments allow entities, on initial application of PFRS 17, to present comparative information for financial assets as if PFRS 9 had been applied, to improve comparability and reduce accounting mismatches.

(b) Effective beginning on or after January 1, 2026

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) Amendments to PFRS 9 and PFRS 7, the Classification and Measurement of Financial Instruments (effective for reporting periods beginning on or after January 1, 2026). The amendments clarify the classification and measurement of financial instruments, including guidance on financial assets with contingent and ESG-linked features, settlement date accounting, derecognition, and related disclosure requirements.

(ii) Annual Improvements to PFRS Accounting Standards – Volume 11 (effective for reporting period beginning on or after January 1,2026). The annual improvements include narrow-scope amendments to PFRS 1, PFRS 7, PFRS 9, PFRS 10, and PAS 7 that clarify wording and address minor inconsistencies in the application of the standards.

(iii) PFRS 18, Presentation and Disclosure in Financial Statements, with focus on updates to statement of profit or loss, including prescribed categories and subtotals and enhanced disclosures on management-defined performance measures. (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 PFRS Accounting Standards 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 assets held within the business model of “Amortized Cost” or “Held-to Collect” are 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 2025 and 2024 the Bank has not made such designation.

(ii) Financial Assets 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, 2025 and 2024, the Bank has no outstanding financial guarantees and loan commitments.

4.5 **Bank Premises, Furniture, Fixtures and Equipment**

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

The initial cost of bank premises, furniture, fixtures and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the bank premises, furniture, fixtures and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of bank premises, furniture, fixtures and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of bank premises, furniture, fixtures and equipment.

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

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

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

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

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

An item of bank premises, furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of income in the year the asset is derecognized.

4.6 Investment Properties

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

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

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

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized as part of Gain on sale and foreclosure of assets account under Other Operating Income section of the statement of income in the year of retirement or disposal. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against income in the period in which costs are incurred.

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

4.7 Assets Held-for-Sale

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

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

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

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

4.8 Intangible Assets and Other Resources

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

Cost associated with maintaining the computer software programs is 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 PFRS Accounting Standards 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 Probability of Default (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 Loss Given Default (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, 2025 and 2024, 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, 2025 and 2024, 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, 2025 and 2024 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 shown below:

	December 31, 2025			
	Loans and Receivables	**Loans and Advances to Banks (a)**	**Trading and Investment Securities (b)**	**Total**
Real estate	3,813,574,288	0	0	3,813,574,288
Financial intermediaries	839,494,813	371,695,514	0	1,211,190,327
Philippine government		2,454,559,565	1,412,236,881	3,866,796,446
Others community, social and personal services	9,617,691,752	0	0	9,617,691,752
	14,270,760,853	2,826,255,079	1,412,236,881	18,509,252,813
Less allowance for credit and impairment losses	(2,221,651,091)	0	0	(2,221,651,091)
	12,049,109,762	**2,826,255,079**	**1,412,236,881**	**16,287,601,722**

	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	(2,350,742,515)	0	(50,000)	(2,350,792,515)
	11,370,460,575	**1,570,589,852**	**2,064,753,406**	**15,005,803,833**

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, 2025				
Loans and discounts				
Corporate	5,191,021,337	4,519,970,207	671,051,130	4,519,970,207
Consumption	5,436,677,653	0	5,436,677,653	0
Real estate	3,012,516,353	5,426,098,566	(2,413,582,213)	3,012,516,353
Others	8,658,617	7,315,000	1,343,617	7,315,000
	13,648,873,960	**9,953,383,773**	**3,695,490,187**	**7,539,801,560**

	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**

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

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

	2025				2024
	Stage 1	Stage 2	Stage 3	Total	Total
Receivables from customers:					
Corporate loans:					
High Grade	0	0	0	0	0
Standard Grade	2,299,811,363	0	0	2,299,811,363	2,043,514,435
Substandard Grade	33,232,137	34,858,647	257,372,821	325,463,605	472,733,968
Unrated	0	0	0	0	312,323,348
Past due but not impaired	0	18,980,743	153,027,379	172,008,122	948,822,514
Impaired	0	407,994,903	1,985,743,344	2,393,738,247	1,577,403,126
	2,333,043,500	**461,834,293**	**2,396,143,544**	**5,191,021,337**	**5,354,797,391**
Consumer loans:					
High Grade	0	0	0	0	0
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	7,105,348,044	0	0	7,105,348,044	6,318,778,821
Past due but not impaired	0	202,118,040	827,468,952	1,029,586,992	932,944,206
Impaired	0	0	322,917,588	322,917,588	378,850,243
	7,105,348,044	**202,118,040**	**1,150,386,540**	**8,457,852,624**	**7,630,573,270**
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	169,669	0	0	169,669	226,226
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	169,669	**0**	**0**	**169,669**	**226,226**
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	61,196,458	0	155,619,647	216,816,105	253,837,528
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	61,196,458	**0**	**155,619,647**	**216,816,105**	**253,837,528**
Accrued interest receivables:					
High Grade	0	0	0	0	0
Standard Grade	17,273,986	0	0	17,273,986	12,146,951
Substandard Grade	617,874	1,095,129	5,079,032	6,792,035	11,151,314
Unrated	24,021,743	0	115,447	24,137,190	39,414,342
Past due but not impaired	0	1,749,196	12,015,481	13,764,677	20,121,502
Impaired	0	25,183,618	67,290,633	92,474,251	85,472,095
	41,913,603	**28,027,943**	**84,500,593**	**154,442,139**	**168,306,204**
Accounts receivables:					
High Grade	0	0	0	0	0
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0

	2025				2024
	Stage 1	Stage 2	Stage 3	Total	Total
Unrated	250,017,309	0	761,002	250,778,311	315,239,824
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	250,017,309	**0**	**761,002**	**250,778,311**	**315,239,824**
Bills Purchased:					
High Grade	0	0	0	0	0
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	3,236,022	0	0	3,236,022	2,173,517
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	3,236,022	**0**	**0**	**3,236,022**	**2,173,517**
Total	**9,794,924,605**	**691,980,276**	**3,787,411,326**	**14,274,316,207**	**13,725,153,960**

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, 2025 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	204,813,435	474,736,822	679,550,257
Corporate	30,438,066	141,570,056	172,008,122
Consumption	79,329,336	270,687,870	350,017,206
Others	0	19,529	19,529
	314,580,837	**887,014,277**	**1,201,595,114**

(h) Impaired Loans and Receivables and Investments Securities

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

The Bank holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees and other registered securities. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and these are updated every two years. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The Bank is not allowed to sell or pledge collateral held for reverse repurchase agreements. Collateral is not usually held against investment securities and no such collateral was held as at December 31, 2025 and 2024.

The total fair value of collaterals of impaired loans and receivables amounted to P1.65 billion and P13.35 million as at December 31, 2025 and 2024, 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, 2025 and 2024, restructured loans amounted to P1.02 billion and P1.16 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, 2025 and 2024, restructured loans considered as NPL amounted to P641.84 million and P697.38 million, respectively.

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

	2025	**2024**
Corporate	895,172,276	1,015,351,403
Consumption	88,212,438	45,568,415
Real estate	40,989,919	96,440,533
Others	12	12
	1,024,374,645	**1,157,360,363**

(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, 2025 and 2024 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 P1.02 billion and P1.16 billion as of December 31, 2025 and 2024, respectively. The related allowance for credit loss of such loans amounts to P132.11 million and P186.60 million as of the same dates, respectively.

Of the total outstanding restructured loans as of December 31, 2025, P110.75 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, 2025 and 2024, the total outstanding balance of loans modified under BAHO and BARO Acts amounts to P1.74 billion and P2.10 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, 2025:

	2025	2024
Stage 1 (Performing)	**BAHO/BARO Accts.**	**BAHO/BARO Accts.**
Corporate	52,182,810	72,303,485
Consumer	148,365,815	326,870,867
	200,548,625	**399,174,352**
Stage 2 (Underperforming)		
Corporate	443,201,203	7,264,681
Consumer	32,462,704	48,693,957
	475,663,907	**55,958,638**
Stage 3 (Non-performing)		
Corporate	728,177,604	1,004,045,951
Consumer	335,053,396	642,663,244
	1,063,231,000	**1,646,709,195**

(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

	2025		2024	
	Primary Reserve to Deposit*	**Secondary Reserves to Deposits****	**Primary Reserve to Deposit***	**Secondary Reserves to Deposits****
December	26.32%	8.89%	13.71%	12.49%
September	23.36%	10.65%	14.17%	11.21%
June	16.20%	14.03%	15.18%	8.77%
March	15.62%	13.90%	14.99%	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
2025	77.17%	76.72%	76.19%	74.50%
2024	92.25%	90.89%	92.36%	89.32%

(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:

	2025	2024
December	18.09%	15.37%
September	18.58%	14.43%
June	16.34%	15.30%
March	15.69%	14.11%

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

	2025					
	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	1,139	51,083	5,571	62,972	51,878	172,643
Financial assets at FVOCI:						
Government securities	648,564	1,198	120,912	139,342	100,512	1,010,528
Financial assets at amortized cost	796	1,770	8,537	322,370	0	333,473
At amortized cost:						
Cash and other cash items	637,544	0	0	0	0	637,544
Due from BSP	1,074,560	0	0	0	0	1,074,560
Due from other banks	371,695	0	0	0	0	371,695
Loans and discounts:						
Commercial	1,969,926	457,459	1,131,457	783,421	1,069,649	5,411,912
Consumption	487,072	10,058	103,923	5,673,625	216,877	6,491,555
Real estate	63,745	10,058	30,566	378,244	4,077,127	4,559,740
Others	1,594	760	6,522	0	0	8,876
Unquoted debt securities	0	0	0	170	0	170
Sales contract receivable	1,008	74	492	57,871	194,639	254,084
Accrued interest receivable	148,158	0	0	0	0	148,158
Accounts receivable	250,778	0	0	0	0	250,778
Bills purchased	3,236	0	0	0	0	3,236
Total Financial Resources	5,659,815	532,460	1,407,980	7,418,015	5,710,682	20,728,953
Financial Liabilities:						
Deposit liabilities:						
Demand	2,415,218	0	0	0	0	2,415,218
Savings	5,920,388	0	0	0	0	5,920,388
Time	6,966,621	0	0	428,278	159,796	7,554,695
Total Financial Liabilities	15,302,227	0	0	428,278	159,796	15,890,301
Net Liquidity Surplus (Gap)	**(9,642,412)**	**532,460**	**1,407,980**	**6,989,737**	**5,550,886**	**4,838,652**

	2024					
	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	3,911	1,238	15,437	341,408	0	361,994
Financial assets at FVOCI:						

	2024					
	Up to 1 Month	**1 to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Beyond 5 Years**	**Total**
Government securities	351,515	53,475	238,693	669,336	111,024	1,424,043
Financial assets at amortized cost	817	6,787	9,613	323,298	0	340,515
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	2,201,643	504,927	786,909	899,321	681,610	5,074,410
Consumption	1,911,371	3,723	93,853	4,630,147	186,104	6,825,198
Real estate	7,966	238	25,964	363,010	3,943,965	4,341,143
Others	576	1,528	9,496	56	0	11,656
Unquoted debt securities	0	0	0	226	0	226
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**	**6,752,498**	**4,876,619**	**6,629,688**

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

(c) Liquidity Coverage Ratio

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on liquidity coverage ratio (LCR) and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows which should not be lower than 100 per cent. Per BSP Circular No. 1035, *Amendments to the Basel III Liquidity Coverage Ratio Framework and minimum Liquidity Ratio Framework*, compliance with the 100 per cent LCR minimum requirement. As at December 31, 2025 the Bank's compliance with LCR is at 112.39 per cent.

(d) Net Stable Fund Ratio

On June 6, 2018, the BSP issued Circular No. 1007, Implementing Guidelines on the adoption of *the Basel III Framework on Liquidity Standards – Net stable Funding Ratio and Disclosure Standards*, which provides the implementing guidelines on Net Stable Funding Ratio and disclosure standards that are consistent with the Basel III framework. The NSFR is the ratio of Available Stable Funding (ASF) to the Required Stable Funding (RSF) which should not be lower than 100 per cent. Per BSP Circular No. 1034, *Amendments to the Basel III Framework on Liquidity Standards -Net Stable Funding Ratio and minimum NSFR Framework*, compliance with the 100 per cent NSFR minimum requirement. As at December 31, 2025 the Bank's compliance with NSFR is at 126.98 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, 2025 and 2024 that the aggregate daily losses were greater than the VaR limit. The Bank's VaR statistics are shown on the succeeding page (in thousands):

	2025	**2024**
December 31	5,818	16,920
Year to date average	9,699	16,768
High	15,811	20,310
Low	4,633	11,310

(b) Non-trading Activities

Interest Rate Risk

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

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

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

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

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

	2025				
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Total**
Financial Assets:					
Due from BSP	1,040,000	0	0	0	1,040,000
Loans receivables	246,790	460,080	699,350	399,979	1,806,199
Total financial assets	1,286,790	460,080	699,350	399,979	2,846,199
Financial Liability – Time deposits	2,561,630	2,583,784	982,898	534,322	6,662,634
Repricing Gap	**(1,274,840)**	**(2,123,704)**	**(283,548)**	**(134,343)**	**(3,816,435)**

	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**

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*							
	2025				**2024**			
Increase (Decrease) in Basis Points	-100	-50	+50	+100	-100	-50	+50	+100
Change in mark-to-market gain / loss Financial Asset at FVTPL	2.59	-0.80	-1.89	-3.32	8.65	-5.10	-5.39	-10.00

**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**							
	2025				**2024**			
Increase (Decrease) in Basis Points	-100	-50	50	100	-100	-50	50	100
Change in mark-to-market gain / loss Financial Asset at FVOCI	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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

6.5 Operational Risk

As for operational risk, the Bank has completed the bankwide Operational Risk and Control Self-Assessment in support of the enterprise risk management framework of the

Bank. RMD conducts a risk awareness training to new employees and a refresher course to existing employees. The seminar covers an introduction to all types of risks that the Bank is exposed to with focus on operational risk, information technology, and information security.

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

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

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

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

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

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

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

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

7. CAPITAL MANAGEMENT

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The breakdown of the Bank's risk-weighted assets as at December 31, 2025 and 2024 as reported to the BSP are shown in the table below (in thousands):

	Without BSP Relief 2025	With BSP Relief 2025	With BSP Relief 2024
Credit risk-weighted assets	13,530,877	13,530,877	13,087,963
Market-risk weighted assets	30,314	30,314	104,372
Operational risk-weighted assets	1,932,280	1,932,280	2,053,581
	15,493,471	**15,493,471**	**15,245,916**

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 Accounting Standards 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):

	2025 w/out relief	2025 with relief	2024 with relief
Qualifying Capital			
(consists of Tier 1 and Tier 2 Capital, net of required deductions)			
A. Tier 1 Capital			
A1. CET1 Capital			
1. Paid-up common stock	717,249	717,249	717,249
2. Additional paid-in capital	389,508	389,508	389,508
3. Retained earnings	1,263,417	1,263,417	1,270,986
4. Other comprehensive income	(27,514)	(27,514)	(27,861)
less: Regulatory adjustments to CET 1 Capital			
1. Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	2	2	725
2. Deferred tax assets	666,093	666,093	633,017
3. Other intangible assets	18,244	18,244	19,597
Total CET1 Capital	**1,658,321**	**1,658,321**	**1,696,543**
A2. Additional CET1 Capital	**0**	**0**	**0**
Total Tier 1 Capital	**1,658,321**	**1,658,321**	**1,696,543**
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	91,544	91,544	89,788
Total Tier 2 Capital	**91,544**	**91,544**	**89,788**
Total Qualifying Capital	**1,749,865**	**1,749,865**	**1,786,331**

	2025 w/out relief	2025 with relief	2024 with relief
Risk Weighted Assets			
1. Total Credit Risk-Weighted Assets	13,530,877	13,530,877	13,087,963
2. Total Market Risk-Weighted Assets	30,314	30,314	104,372
3. Total Operational Risk-Weighted Assets	1,932,280	1,932,280	2,053,581
Total Risk-Weighted Assets	**15,493,471**	**15,493,471**	**15,245,916**
RISK-BASED CAPITAL ADEQUACY RATIO			
Common Equity Tier 1 Ratio	10.70%	10.70%	11.13%
Capital Conservation Buffer	4.70%	4.70%	5.13%
Tier 1 Capital Ratio	10.70%	10.70%	11.13%
Total Capital Adequacy Ratio	**11.29%**	**11.29%**	**11.72%**

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 deposits1, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

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

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

As at December 31, 2025 and 2024, 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 No. 781, which contains the revised risk-based capital adequacy framework for the Philippine Banking system in accordance with the Basel III standards. The said Circular took effect on January 1, 2014. The following are the revised minimum capital requirements for Universal Banks (UBs) and Commercial Banks (KBs) and their subsidiary banks and quasi-banks (QBs):

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

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

In conformity with the Basel III standards, a Capital Conservation Buffer (CCB) of 2.5 per cent of RWAs, comprised of CET1 capital, has been required of UBs/KBs and their subsidiary banks and quasi-banks. This buffer is meant to promote the conservation of capital and build-up of adequate cushion that can be drawn down by banks to absorb losses during financial and economic stress. The restrictions on distribution that a bank must meet at various levels of CET1 capital ratios are established, as shown in the succeeding 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 manages its capital to ensure compliance with BSP regulations and to maintain an adequate buffer above the prescribed minimum. As of December 31, 2025, the Bank's leverage ratio is as follows:

Particulars	**Amount**
Tier 1 Capital	1,658,321,270
Total Exposure Measure	18,296,578,291
Leverage Ratio	**9.06%**

The leverage ratio is calculated as Tier 1 Capital divided by Total Exposure Measure.

The Bank's total exposure measure consists of the following components:

Particulars	**Amount**
On-Balance Sheet Exposures (net of specific provision)	16,916,283,412
Derivative Exposures	0
Securities Financing Transactions (SFTs)	1,380,294,879
Off-Balance Sheet Exposures (credit equivalent amount)	0
Total Exposure Measure	**18,296,578,291**

The Bank's leverage ratio as of December 31, 2025 remains above the BSP minimum requirement. The Bank continues to actively monitor its leverage position to ensure sustained compliance with regulatory requirements while supporting its business growth objectives.

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):

	2025		2024	
	Carrying Amounts	**Fair Values**	**Carrying Amounts**	**Fair Values**
Financial Resources:				
At amortized cost:				
Cash and other cash items	637,544	637,544	448,385	448,385
Due from BSP	1,074,560	1,074,560	1,265,855	1,265,855
Due from other banks	371,695	371,695	304,735	304,735
Interbank Loan Receivables and SPURA	1,380,000	1,380,000	0	0
Loans and receivables – net	12,049,110	11,448,748	11,800,710	10,794,129
Financial assets	301,307	298,031	308,129	298,669
Financial assets at:				
FVTPL	151,553	151,553	352,837	352,837
FVOCI	959,377	959,377	1,403,787	1,403,787
	16,925,146	**16,321,508**	**15,884,438**	**14,868,397**
Financial Liabilities:				
At amortized cost:				
Deposit liabilities:				
Demand	2,415,218	2,415,218	2,798,144	2,798,144
Savings	5,920,388	5,920,388	6,149,379	6,149,379
Time	7,554,695	7,554,695	5,589,868	5,589,868
Accrued interest and other expenses	104,040	104,040	102,645	102,645
Other liabilities				
Bills purchased – contra	3,236	3,236	2,174	2,174
Managers' check	45,664	45,664	48,099	48,099
Due to PDIC	14,100	14,100	11,300	11,300
Due to Treasury of the Philippines	32,785	32,785	20,512	20,512
Miscellaneous	471,365	471,365	412,599	412,599
	16,558,491	**16,558,491**	**15,134,720**	**15,134,720**

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

8.2 Offsetting of Financial Assets and Financial Liabilities

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

9. FAIR VALUE MEASUREMENT AND DISCLOSURES

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

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

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

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

Fair value is generally based on quoted market prices, if available. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. Except for financial assets at amortized cost, with fair value disclosed different from their carrying amounts, financial assets at FVTPL and financial assets at FVOCI – government securities, management considers that the carrying amounts approximate the fair value either because those instruments are short-term in nature or the effect of discounting for those maturities more than one year is not material.

(c) Unquoted Equity Securities

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

(d) Loans and Receivables

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

(e) Liabilities

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

9.1 Fair Value Hierarchy

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

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

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

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

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

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

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

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

9.2 Financial Assets Measured at Fair Value

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

	2025			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Financial Resources				
Financial assets at FVTPL -				
Government securities held for trading	151,553	0	0	151,553
Financial assets at FVOCI -				
Government debt securities	959,377	0	0	959,377
	1,110,930	**0**	**0**	**1,110,930**

	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**

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 and in the succeeding page shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of December 31.

	2025			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Investment properties:				
Land	0	890,090,521	0	890,090,521
Building	0	0	362,962,157	362,962,157
Assets Held-for Sale	0	0	6,294,671	6,294,671
	0	**890,090,521**	**369,256,828**	**1,259,347,349**

	2024			
	Level 1	Level 2	Level 3	Total Fair Value
Investment properties:				
Land (As restated)	0	797,360,197	0	797,360,197
Building	0	0	336,066,381	336,066,381
Assets Held-for Sale	0	0	20,996,376	20,996,376
	0	**797,360,197**	**357,062,757**	**1,154,422,954**

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 2025 and 2024.

10. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents were as follows:

	2025	2024
Cash and other cash items	637,544,055	448,385,451
Due from BSP	1,074,559,565	1,265,855,021
Due from other banks	371,695,514	304,734,831
Securities Purchased under Resale Agreements (SPURA)	1,380,000,000	0
	3,463,799,134	**2,018,975,303**

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 4.50 per cent to 6.02 per cent per annum in 2025 and 6.01 per cent to 6.83 per cent per annum in 2024. Interest income earned on the placement made with BSP amounted to P51.79 million in 2025 and P34.82 million in 2024 and is presented as part of Interest income on Due from BSP and Other Banks account in the statements of income.

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

	2025	2024
Commercial banks:		
Savings	11,527,854	5,138,764
Demand	13,661,532	14,352,217
	25,189,386	**19,490,981**
Government banks:		
Savings	344,687,683	278,378,092
Demand	1,818,445	6,865,758
	346,506,128	**285,243,850**
	371,695,514	**304,734,831**

Interest rates on these deposits range from 0.03 per cent to 3.75 per cent per annum in 2025 and 0.03 per cent to 0.125 per cent per annum in 2024. Interest income earned on the placements made with other banks amounted to P9.87 million in 2025 and P111,511 in 2024 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 4.50 per cent to 5.90 per cent in 2025 and 5.75 per cent to 6.60 per cent in 2024. Interest income from SPURA amounted to P36.94 million in 2025 and P30.60 million in 2024 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, 2025 and 2024 are composed of Philippine peso-denominated government debt securities amounting to P151.55 million and P352.84 million, respectively.

These debt securities classified as financial assets at FVTPL earn annual interest at rates ranging from 4.63 per cent to 7.00 per cent in 2025 and 6.13 per cent to 6.25 per cent in 2024 (see Note 11.4). All financial assets at FVTPL are held for trading.

For the years ended December 31, 2025 and 2024, net trading and securities gains (losses) in the statements of income resulted from:

	2025	**2024**
Net realized gains (losses)	(1,015,768)	857,198
Net unrealized gains (losses)	3,630,816	(1,255,977)
	2,615,048	**(398,779)**

11.2 Financial Assets at Fair Value Through Other Comprehensive Income

Financial Assets at FVOCI consist of Government debt securities amounting to P959.38 million and P1.40 billion as of December 31, 2025 and 2024, respectively.

These debts securities classified as financial assets at FVOCI consist of fixed-rate treasury notes issued by the Philippine government and corporate bonds. Interest rate of 4.63 per cent to 8.00 per cent in 2025 and 6.00 per cent to 8.00 per cent in 2024. (see Note 11.4)

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

	2025	**2024**
Balance at beginning of the year	1,466,166	6,141,481
Net Unrealized gains (loss) recognized as other comprehensive income	(951,306)	(4,675,315)
Balance at end of year	**514,860**	**1,466,166**

11.3 Financial Assets at Amortized Cost

Financial assets at amortized cost consist of securities which bear nominal annual rates of 4.63 per cent to 18.25 per cent in both 2025 and 2024. These securities have maturity of beyond two years from the end of the reporting periods. The account composition is shown in the succeeding table:

	2025	2024
Amortized Cost-FXTN	300,000,000	301,000,000
Amortized Cost-Corporate Bonds	0	5,000,000
Unamortized Discount/Premium	1,306,669	2,178,770
Allowance for Credit Losses	0	(50,000)
Balance at the end of year	**301,306,669**	**308,128,770**

11.4 Interest Income on Trading and Investment Securities

For the years ended December 31, 2025 and 2024, interest income on trading and investment securities recognized in the statements of income is presented in the table below:

	Note	2025	2024
Financial assets at:			
FVTPL	11.1	8,550,174	18,761,892
FVOCI	11.2	80,310,041	74,430,652
Amortized Cost	11.3	13,242,374	13,553,317
		102,102,589	**106,745,861**

12. LOANS AND RECEIVABLES

This account consists of:

	Note	2025	2024 (As restated)
Loans and discounts:			
Corporate		5,191,021,337	5,354,797,391
Consumption		5,436,677,653	4,645,820,506
Real estate		3,012,516,353	2,971,878,743
Others		8,658,617	12,874,021
		13,648,873,960	**12,985,370,661**
Accrued interest receivable		154,442,139	168,306,204
Accounts receivable		250,778,312	315,239,824
Sales contract receivable		216,816,105	253,837,528
Bills purchased		3,236,022	2,173,517
Unquoted debt securities		169,669	226,226
		14,274,316,207	**13,725,153,960**
Unearned discounts		(3,784,813)	(3,950,870)
Allowance for credit losses	18	(2,221,421,632)	(2,350,742,515)
		12,049,109,762	**11,370,460,575**

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

Effective interest rates on loans and discounts range from five per cent to 15.00 per cent both in 2025 and 2024.

Unquoted debt securities pertain to a 10-year bond of the LBP. The LBP bonds have various maturity dates starting from August 17, 2018 to August 17, 2028. Interest rates on the LBP bonds are based on 91-day treasury-bill rates.

As at December 31, 2025, 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:

	2025	**2024**
Loans and discounts	147,677,323	154,588,904
Financial assets:		
FVTOCI	2,700,245	7,639,828
FVTPL	1,468,889	3,759,583
Amortized cost	863,333	884,003
Deposits with BSP and other banks	1,248,275	687,205
Sales contract receivable	481,121	742,927
Unquoted debt securities	2,953	3,754
	154,442,139	**168,306,204**

Interest income on loans and receivables consists of:

	2025	**2024**
Loans and discounts	969,171,446	926,070,633
Sales Contract Receivables	18,381,003	12,485,080
Unquoted debt securities	11,681	14,489
	987,564,130	**938,570,202**

Interest Income from restructured loans amounted to P51.92 million and P70.53 million in 2025 and 2024, respectively.

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

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

	2025	2024
Loans secured by:		
Real estate mortgage	4,014,667	4,091,460
Chattel mortgage	508,198	647,882
Deposits	50,971	28,113
	4,573,836	4,767,455
Unsecured	9,075,038	8,220,089
	13,648,874	**12,987,544**

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 2025 and 2024 are shown below.

	Land	Buildings and Improvements	Furniture, Fixtures and Office Equipment	Leasehold Improvement	Right-of-use Asset	Total
December 31, 2025						
Cost	1,011,711	48,230,619	251,863,329	235,951,045	188,244,488	725,301,192
Accumulated Depreciation and amortization	0	(32,320,439)	(181,581,706)	(162,121,098)	(54,757,892)	(430,781,135)
Allowance for Losses	0	0	0	0	0	0
Net carrying amount	**1,011,711**	**15,910,180**	**70,281,623**	**73,829,947**	**133,486,596**	**294,520,057**
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**
January 1, 2024						
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**

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2025 and 2024 is shown in the succeeding table.

	Land	Buildings and Improvements	Furniture, Fixtures and Office Equipment	Leasehold Improvement	Right-of-use Asset	Total
Balance at January 1, 2025 net of accumulated depreciation and amortization	1,011,711	11,737,737	34,228,142	76,103,960	128,471,326	251,552,876
Additions	0	0	48,466,942	26,548,662	64,228,301	139,243,905
Transfer and Reclassification	0	6,160,023	3,818,378	751,372	(4,455,139)	6,274,634
Disposal	0	0	(2,015,409)	(7,257,045)	0	(9,272,454)
Depreciation and amortization charges for the year	0	(1,987,580)	(14,216,430)	(22,317,002)	(54,757,892)	(93,278,904)
Allowance for losses for the year	0	0	0	0	0	0
Balance at December 31, 2025 net of accumulated depreciation and amortization	**1,011,711**	**15,910,180**	**70,281,623**	**73,829,947**	**133,486,596**	**294,520,057**
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
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**

As at December 31, 2025 and 2024, the original cost of fully depreciated bank premises, furniture, fixtures and equipment still in use by the Bank amounted to P151.98 million and P145.50 million, respectively.

As at December 31, 2025 and 2024, there were no idle and retired bank premises, furniture, fixtures and equipment.

Gain on disposal of bank premises, furniture, fixtures and equipment amounted to P1.12 million and P0.65 million in 2025 and 2024 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, 2025 and 2024, 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 10 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	54	1-5 years	3.30 years	0	0	54

14.1 Lease Liabilities

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

As at December 31, 2025, the Bank has not committed leases which have not commenced yet.

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

2025	**Within 1 year**	**Two to Five years**	**More than Five years**	**Total**
Lease Payments	3,039,309	158,717,090	0	161,756,399
Finance Charges	(328,688)	(11,234,314)	0	(11,563,002)
Lease Liability	**2,710,621**	**147,482,776**	**0**	**150,193,397**

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**

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 P65.14 million and P54.17 million in 2025 and 2024, respectively. Interest expense in relation to lease liabilities amounted to P11.71 million and P10.17 million and is presented as part of Interest Expense in 2025 and 2024 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 statement of income.

The gross carrying amounts and accumulated depreciation, amortization and impairment of investment properties at the beginning and end of 2025 and 2024 are shown below.

	Land	Buildings and Improvements	Total
December 31, 2025			
Cost	862,180,761	167,253,017	1,029,433,778
Accumulated Depreciation	0	(49,005,821)	(49,005,821)
Accumulated Impairment	(37,577,856)	0	(37,577,856)
Net carrying amount	**824,602,905**	**118,247,196**	**942,850,101**
December 31, 2024			
Cost (As restated)	797,360,197	336,066,380	1,133,426,577
Accumulated Depreciation	0	(82,206,191)	(82,206,191)
Accumulated Impairment	(18,361,130)	0	(18,361,130)
Net carrying amount	**778,999,067**	**253,860,189**	**1,032,859,255**
January 1, 2024			
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)

	Land	Buildings and Improvements	Total
Net carrying amount	**495,005,257**	**291,255,454**	**786,260,711**

Reconciliations of the carrying amounts of investment properties at the beginning and end of 2025 and 2024 are shown in the succeeding page:

	2025			2024		
	Land	**Buildings and Improvements**	**Total**	**Land**	**Buildings and Improvements**	**Total**
Cost						
Balance at beginning of year	797,360,197	336,066,380	1,133,426,577	515,334,161	378,766,767	894,100,916
Additions	147,801,409	66,307,277	214,108,686	79,811,166	17,892,000	97,703,166
Disposals	(59,094,204)	(39,411,800)	(98,506,004)	(100,508,317)	(60,592,387)	(161,100,693)
Transfers/ Adjustments	(23,886,641)	(195,708,840)	(219,595,481)	302,723,186	0	302,723,186
Balance at end of year	**862,180,761**	**167,253,017**	**1,029,433,778**	**797,360,196**	**336,066,380**	**1,133,426,576**
Accumulated depreciation						
Balance at beginning of year	0	82,206,191	82,206,191	0	84,289,597	84,289,597
Depreciation and amortization	0	12,016,590	12,016,590	0	13,246,089	13,246,089
Disposals	0	(13,696,500)	(13,696,500)	0	(15,329,495)	(15,329,495)
Transfers/ Adjustments	0	(31,520,460)	(31,520,460)	0	0	0
Balance at end of year	**0**	**49,005,821**	**49,005,821**	**0**	**82,206,191**	**82,206,191**
Allowance for impairment and losses						
Balance at beginning of year	18,361,130	0	18,361,130	20,328,892	3,221,717	23,550,609
Transfers/ Adjustments	20,192,771	0	20,192,771	(483,862)	(990,967)	(1,474,829)
Disposals	(976,045)	0	(976,045)	(1,483,900)	(2,230,750)	(3,714,650)
Balance at end of year	**37,577,856**	**0**	**37,577,856**	**18,361,130**	**0**	**18,361,130**
Carrying amount at the end of year	**824,602,905**	**118,247,196**	**942,850,101**	**778,999,066**	**253,860,189**	**1,032,859,255**

The appraised value of the collaterals of investment properties amounted to P1.68 billion and P1.64 billion as at December 31, 2025 and 2024, 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 P23.98 million and P11.24 million in 2025 and 2024, respectively and is presented as Litigation under Other Operating Expenses in the statements of income.

In 2025 and 2024, 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 P85.58 million and P28.97 million, respectively.

The Bank recognized gain on sale of P24.52 million on investment properties in 2025 and gain amounting to P22.72 million in 2024, 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

Non-current assets held for sale (NCAHS) consists of other properties (chattels and real estate) acquired through foreclosure or repossession of collaterals during the year. 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:

REAL PROPERTIES:

	Land	Buildings and Improvements	Total
December 31, 2025			
Cost	27,909,760	164,188,680	192,098,440
Accumulated Impairment	(1,354,700)	0	(1,354,700)
Net carrying amount	**26,555,060**	**164,188,680**	**190,743,740**

CHATTEL:

	2025	2024
Beginning balance	20,996,376	14,283,964
Repossessions	35,359,307	49,271,615
Sale and redemption	(50,061,012)	(42,559,205)
Allowance for Impairment	(561,000)	(1,806,194)
	5,733,671	**19,190,180**

As at December 31, 2025 and 2024, allowance for impairment loss on assets-held-for sale amounted to P1.91 million and P1.81 million, respectively (see Note 18).

In 2025 and 2024, the Bank recognized loss on sale and foreclosure of assets-held-for-sale amounting to P8.34 million and P6.35 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:

	2025	2024
Advance rentals and refundable deposits	50,814,729	34,190,074
Deferred charges	20,381,244	24,086,510
Software costs – net	18,243,961	19,597,487
Prepaid expenses	12,426,094	15,433,327
Deferred assets – car lease	0	1,656,935
Stationery supplies	2,384,817	2,508,036
Other Assets-FFE	458,175	463,033
Miscellaneous	15,552,715	5,513,604
	120,261,735	103,449,006
Allowance for impairment loss	(457,761)	(457,761)
	119,803,974	**102,991,245**

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.

The gross carrying amounts of software costs at the beginning and end of 2025 and 2024 is shown below:

	2025	2024
Cost	132,973,491	119,320,369
Accumulated amortization	(114,729,530)	(99,722,882)
Net carrying amount	**18,243,961**	**19,597,487**

A reconciliation of the carrying amount of software costs at the beginning and end of 2025 and 2024 is shown below.

	2025	2024
Balance at January 1, net of accumulated amortization	19,597,487	21,914,310
Additions	24,110,575	25,084,764
Amortization charges for the year	(25,464,101)	(27,401,587)
Balance at December 31, net of accumulated amortization	**18,243,961**	**19,597,487**

18. ALLOWANCES FOR CREDIT AND IMPAIRMENT LOSSES

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

	Note	2025	2024
Balances at beginning of year:			
Loans and receivables	12	2,350,742,515	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
		2,371,367,600	1,987,969,215
Credit and impairment losses during the year			
Loans and receivables		79,648,134	430,248,877
Investment properties		0	0
Assets held-for-sale		0	0
Other resources		0	0
		79,648,134	430,248,877
Disposals:			
Loans and Receivables		(187,293,893)	(34,126,582)
Investment properties	15	0	(3,714,650)
Assets held for sale		(1,670,194)	(1,784,570)
Other resources		0	
		(188,964,087)	(39,625,802)
Reversals/reclassifications			
Loans and receivables		(21,675,124)	(8,393,828)
Investment properties	15	19,216,726	(1,474,829)
Assets held-for-sale		1,779,700	2,701,435
Other resources		0	(57,468)
		(678,698)	(7,224,690)
Balances at end of year:			
Loans and receivables	12	2,221,421,632	2,350,742,515
Investment properties	15	37,577,856	18,361,130
Assets held-for-sale	16	1,915,700	1,806,194
Other resources	17	457,761	457,761
		2,261,372,949	**2,371,367,600**

Presented below is the breakdown of allowance for credit and impairment losses for Loans and Receivable as at December 31, 2025:

	Stage 1	Stage 2	Stage 3	Total
Loans and Receivables:				
Loans and discounts:				
Corporate	253,615,556	11,023,380	1,333,678,131	1,598,317,067
Consumption	2,446,988	5,989,247	522,599,860	531,036,095
Real estate	9,068	888,991	19,436,737	20,334,796
Others	25,700,727	45,547	45,987,400	71,733,674
	281,772,339	**17,947,165**	**1,921,702,128**	**2,221,421,632**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for loans and discounts in 2025 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Corporate				
Gross carrying amount as at January 1, 2025	2,568,093,377	31,008,651	2,755,695,363	5,354,797,391
New assets originated or purchased	2,636,145,416	0	0	2,636,145,416
Assets derecognized or repaid	(2,634,594,881)	(53,066,525)	(27,191,108)	(2,714,852,513)
Transfers from Stage 1	(236,600,412)	236,600,412	0	0
Transfers to Stage 2	0	247,291,754	(247,291,755)	(1)
Transfers to Stage 3	0	0	0	0
Transfer to Investment Property	0	0	(85,068,957)	(85,068,957)
Amounts written off	0	0	0	0
	2,333,043,500	**461,834,292**	**2,396,143,543**	**5,191,021,337**
ECL allowance as at January 1, 2025 under PFRS 9	58,419,730	979,023	1,345,995,982	1,405,394,735
Provisions	79,198,896	0	0	79,198,896
Assets derecognized or repaid	0	0	0	0
Transfers from Stage 1	115,996,930	(115,996,930)	0	0
Transfers to Stage 2	0	126,041,288	(126,041,288)	0
Transfers to Stage 3	0	0	113,723,436	113,723,436
Amounts written off	0	0	0	0
	253,615,556	**11,023,381**	**1,333,678,130**	**1,598,317,067**
Consumption				
Gross carrying amount as at January 1, 2025	3,885,077,482	66,520,867	694,222,157	4,645,820,506
New assets originated or purchased	3,326,416,070	0	0	3,326,416,070
Assets derecognized or repaid	(2,385,749,300)	(28,767,652)	(43,444,884)	(2,457,961,836)
Transfers to (from) Stage 1	(52,467,369)	52,467,369	0	0
Transfers to (from) Stage 2	0	(36,664,534)	36,664,534	0
Transfers to (from) Stage 3	0	0	0	0
Transfer to Investment Property	0	0	(42,177,982)	(42,177,982)
Amounts written off	0	0	(35,419,105)	(35,419,105)
	4,773,276,883	**53,556,050**	**609,844,720**	**5,436,677,653**
ECL allowance as at January 1, 2025 under PFRS 9	38,980,189	3,326,043	339,611,181	381,917,413
Provisions (recovery)	0	0	0	0
Assets derecognized or repaid	0	0	0	0
Transfers to (from) Stage 1	(36,533,201)	36,533,201	0	0
Transfers to (from) Stage 2	0	(33,869,998)	33,869,998	0
Transfers to (from) Stage 3	0	0	184,537,786	184,537,786
Amounts written off	0	0	(35,419,104)	(35,419,104)
	2,446,988	**5,989,246**	**552,599,860**	**531,036,095**
Real estate				
Gross carrying amount as at January 1, 2025	2,248,178,356	114,848,242	608,852,145	2,971,878,743
New assets originated or purchased	405,239,657	0	0	405,239,657
Assets derecognized or repaid	(263,609,313)	(16,256,592)	(49,724,783)	(329,590,688)
Transfers to (from) Stage 1	(65,056,972)	65,056,972	0	0

	Stage 1	Stage 2	Stage 3	Total
Transfers to (from) Stage 2	0	(15,086,633)	15,086,633	0
Transfers to (from) Stage 3	0	0	0	0
Transfer to Investment Property	0	0	(35,011,359)	(35,011,359)
Amounts written off	0	0	0	0
	2,324,751,727	**148,561,989**	**539,202,636**	**3,012,516,353**
ECL allowance as at January 1, 2024 under PFRS 9	22,534,841	2,666,935	37,885,186	63,086,962
Provisions	0	0	0	0
Transfers to Stage 1	(22,525,773)	(22,525,773)	0	(45,051,546)
Transfers from Stage 2	0	20,747,830	(20,747,830)	0
Transfers from Stage 3	0	0	2,299,380	2,299,380
Amounts written off	0	0	0	0
	9,068	**888,992**	**19,436,736**	**20,334,796**
Others				
Gross carrying amount as at January 1, 2025	492,520,232	2,380,748	257,756,340	752,657,320
New assets originated or purchased	42,670,850	0	0	42,670,850
Assets derecognized or repaid	(143,098,229)	(14,911,831)	(2,803,260)	(160,813,320)
Transfers from Stage 1	(28,240,358)	28,240,358	0	0
Transfers to Stage 2	0	12,318,668	(12,318,668)	0
Transfers to Stage 3	0	0	0	0
Transfer to Investment Property	0	0	(413,986)	(413,986)
Amounts written off	0	0	0	0
	363,852,495	**28,027,943**	**242,220,426**	**634,100,864**
ECL allowance as at January 1, 2025 under PFRS 9				
Provisions	10,781,891	28,926	59,503,491	70,314,308
Assets derecognized or repaid	0	0	0	0
Transfers to Stage 1	14,918,838	(14,918,838)	0	0
Transfers to Stage 2	0	14,935,457	(14,935,457)	0
Transfers from Stage 3	0	0	1,833,352	1,833,352
Amounts written off	0	0	(413,986)	(413,986)
	25,700,729	**45,545**	**45,987,400**	**71,733,674**

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

19. DEPOSIT LIABILITIES

This account consists of the following deposits:

	2025	2024
Demand	2,415,217,744	2,798,144,374
Savings	5,920,388,075	6,149,379,059
Time	7,554,694,564	5,589,867,994
	15,890,300,383	**14,537,391,427**

Savings deposit liabilities consist of regular and special savings accounts. The regular savings accounts bear annual interest rate of 0.30 per cent in 2025 and 2024. The special savings account bears annual interest rate ranging from 0.35 per cent to 0.45 per cent both in 2025 and 2024. While the time deposits bear annual interest rate ranging from 1.23 per cent to 2.38 per cent in 2025 and 1.23 per cent to 2.88 per cent in 2024.

Details of interest expense on deposit liabilities follow:

	2025	2024
Demand	7,082,624	7,493,249
Savings	20,467,213	20,625,895
Time	329,836,923	265,202,466
	357,386,760	**293,321,610**

Under BSP Circular No. 997 and 1004, Series of 2018, the Monetary Board approved the one percentage-point increase in the reserve requirements of thrift banks applicable to the Bank, to three per cent in 2020. As at December 31, 2025 and 2024, the Bank is in compliance with such regulations.

Liquidity and statutory reserves pertain to Due from BSP amounting to P1.07 billion and P1.27 billion as of Dec. 31, 2025 and 2024, respectively (see Note 10). The Bank is in compliance with such regulations as of December 31, 2025 and 2024.

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

20. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

This account consists of:

	2025	2024
Accrued interest payable	40,402,197	22,625,146
Accrued other taxes and licenses	20,754,054	19,421,968
Insurance payable to PDIC	14,100,000	11,300,000
Outside services and utilities	13,701,693	17,690,477
Staff benefits	22,565,497	2,149,730
Salaries of seconded employees	3,007,367	19,130,757
Others	24,363,452	21,627,406
	138,894,260	**113,945,484**

Others account includes human resource activities, repairs and maintenance, freight, communication and other accrued expenses.

21. OTHER LIABILITIES

This account consists of:

	Note	2025	2024
Dividends payable	27.1	21,780,641	21,780,641
Accounts payable		209,006,566	114,188,615
Managers checks and demand drafts outstanding		42,663,819	48,098,579
Withholding taxes payable		12,188,141	10,979,261
Due to the Treasurer of the Philippines		32,785,009	20,511,885
Unclaimed Balances		835,371	0
SSS, Medicare, ECC, compensation premiums		5,430,774	5,158,668
Deferred credits		29,288,875	37,142,280
Lease Liabilities	14.1	150,193,397	144,571,680
Miscellaneous		21,870,605	47,954,122
		526,043,198	**450,385,731**

Accounts payable includes payment on loans pending liquidation and restructuring amounting to P99.27 million and P59.29 million as of December 31, 2025 and 2024. 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, 2025 pertains to loan releases near year-end and various dealers and salesman incentive fees which were presented for payment subsequent to December 31, 2025. Accordingly, significant part of managers checks outstanding as of December 31, 2025 and 2024 was already reversed on the succeeding quarter.

As at December 31, 2025 and 2024, 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):

	2025			2024		
	Within One Year	**Beyond One Year**	**Total**	**Within One Year**	**Beyond One Year**	**Total**
Financial Resources						
Cash and other cash items	637,544	0	637,544	448,385	0	448,385
Due from BSP	1,074,560	0	1,074,560	1,265,855	0	1,265,855
Due from other banks	371,696	0	371,696	304,735	0	304,735

	2025			2024		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
SPURA	1,380,000	0	1,380,000	0	0	0
Financial assets:						
FVTPL	50,003	101,550	151,553	0	352,837	352,837
FVTOCI	757,103	202,274	959,377	699,891	703,896	1,403,787
Amortized Cost	0	301,307	301,307	4,950	303,179	308,129
Loans and discounts - gross	4,259,884	9,388,990	13,648,874	4,410,582	8,574,788	12,985,370
Unquoted debt securities - gross	0	170	170	0	226	226
Accrued interest receivable	154,442	0	154,442	168,306	0	168,306
Sales contract receivables	1,852	214,964	216,816	57,981	195,857	253,838
Accounts receivable	250,778	0	250,778	315,240	0	315,240
Bills purchased	3,236	0	3,236	2,174	0	2,174
Unearned discount	(3,785)	0	(3,785)	(3,951)	0	(3,951)
	8,937,312	10,209,255	19,146,567	7,674,148	10,130,783	17,804,931
Allowance for credit and impairment losses	0	(2,221,422)	(2,221,422)	0	(2,350,742)	(2,350,742)
	8,937,312	7,987,833	16,925,146	7,674,148	7,780,041	15,454,189
Non-Financial Resources						
Bank premises, furniture and fixtures	0	294,520	294,520	0	251,553	251,553
Assets held-for-sale – net	196,477	0	196,477	19,190	0	19,190
Investment properties – net (As restated)	0	942,850	942,850	0	1,032,859	1,032,859
Intangible and other resources –net	0	119,804	119,804	0	102,991	102,991
Deferred tax assets	0	629,516	629,516	0	653,179	653,179
	196,477	1,986,690	2,183,167	19,190	2,040,582	2,059,772
	9,133,789	**9,974,523**	**19,108,313**	**7,693,338**	**9,820,623**	**17,513,961**
Financial Liabilities						
Deposit liabilities	15,302,226	588,074	15,890,300	13,789,026	748,365	14,537,391
Manager’s checks and demand drafts outstanding	42,664	0	42,664	48,099	0	48,099
Accrued interest and other expenses	104,040	0	104,040	94,524	0	94,524
Retirement Liability	24,008	0	24,008	30,109	0	30,109
Other liabilities	497,480	0	497,480	402,287	0	402,287
	15,970,418	588,074	16,558,491	14,364,045	748,365	15,112,410
Non-Financial Liabilities						
Accrued interest and other expenses	20,754	0	20,754	19,422	0	19,422
Income tax payable	3,410	0	3,410	2,888	0	2,888
	24,164	0	24,164	22,310	0	22,310
	15,994,582	**588,074**	**16,582,656**	**14,386,355**	**748,365**	**15,134,720**

23. EMPLOYEE BENEFITS

23.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below:

	Note	2025	2024
Salaries and wages		383,934,828	337,397,235
Fringe benefits		108,210,350	91,779,594
Retirement - defined benefit plan	23.2	29,622,565	28,160,555
		521,767,743	**457,337,384**

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 2025.

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

	2025	2024
Present value of retirement obligation	253,910,428	244,910,484
Fair value of plan assets	(229,901,944)	(214,801,549)
	24,008,484	**30,108,935**

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

	2025	2024
Balance at beginning of year	244,910,484	235,536,343
Current service cost	27,785,919	26,186,526
Interest expense	14,939,540	14,603,253
Remeasurement – actuarial losses (gains) arising from:		
Change in financial assumptions	(15,049,958)	3,645,507
Experience adjustment Benefits paid	1,060,794	(17,720,995)

	2025	2024
Benefits paid	(19,736,351)	(17,340,150)
Balance at end of year	**253,910,428**	**244,910,484**

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

	2025	2024
Balance at beginning of year	214,801,549	203,697,168
Expected interest income	13,102,894	12,629,224
Contributions to the plan assets	29,622,565	28,160,555
Total benefits paid	(19,736,351)	(17,340,150)
Actuarial gain (loss) on plan assets	(7,888,713)	(12,345,248)
Balance at end of year	**229,901,944**	**214,801,549**

The actual return gain on plan assets amounted to P5.21 million in 2025 and P283,976 in 2024.

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

	2025	2024
Cash and cash equivalents	41,819,164	14,090,982
Debt securities	186,657,388	198,820,314
Equity securities	1,425,392	1,868,773
Others	0	21,480
	229,901,944	**214,801,549**

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:

	2025	2024
Reported in statement of income		
Current service cost	27,785,919	26,186,526
Net interest expense:		
Interest expense	14,939,540	14,603,253
Interest income	(13,102,894)	(12,629,224)
	29,622,565	**28,160,555**
Reported in other comprehensive income		
Remeasurement – actuarial losses (gains) arising from:		
Change in financial assumptions	(15,049,958)	3,645,507
Experience adjustment	1,060,794	(17,720,995)
Return on plan assets (excluding amounts included in net Interest expense)	7,888,713	12,345,248
	(6,100,451)	**(1,730,240)**

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:

	2025	2024
Discount rates	6.50%	6.10%
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, 2025			
Discount rate	+/-0.50%	17,196,518	(19,006,992)
Salary growth rate	+/-0.50%	(18,149,175)	16,595,493
December 31, 2024			
Discount rate	+/-0.50%	(17,500,938)	19,411,448
Salary growth rate	+/-0.50%	18,494,126	(16,859,111)

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 P24.01 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 14 years.

The Bank expects to contribute P28.13 million to the retirement plan in 2026.

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	2025	2024
Recovery of Written off Accounts		2,098,827	2,332,962
Bancassurance Income		1,687,500	2,250,000
Gain on sale of FA-FVOCI		6,498,720	0
Gain on sale of bank premises, furniture, fixtures and equipment	13	1,117,639	651,266
Rental income		80,892	80,709
Others		2,556,184	885,018
		14,039,762	**6,199,955**

Others include income on checkbook re-order amounting to P0.51 million and P466,813 in 2025 and 2024, respectively.

25. MISCELLANEOUS EXPENSES

This account consists of:

	2025	2024
Communications	43,915,931	42,758,073
Commission fees	10,772,823	14,000,688
Fines, penalties and other charges	9,726,039	13,372,232
Stationery and supplies used	9,683,709	8,944,437
Freight expenses	4,003,827	5,954,638
Banking and supervision fees	3,956,572	3,921,712
Semi-Expendable Items	9,765,894	3,504,232
Appraisal expenses	2,263,870	1,818,975
Advertising and publicity	748,966	833,672
Donations	99,832	20,001
Others	2,401,458	2,918,394
	97,338,921	**98,047,054**

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

26. TAXES

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

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

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

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

	2025	2024
Reported in statement of income:		
Current tax expense:		
RCIT at 25 per cent	0	0
Final tax at 20 per cent	34,839,674	35,264,802
	34,839,674	35,264,802
Deferred tax income relating to origination and reversal of temporary differences	32,385,215	15,099,493
	67,224,889	**50,364295**
Reported in other comprehensive loss		
Deferred tax income relating to origination and reversal of temporary differences	**(1,525,113)**	**(432,560)**

The Bank is subject to the MCIT which is computed at two per cent of gross income net of allowable deductions, as defined under the tax regulations or to RCIT, whichever is higher.

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

Year Incurred	Amount	Utilized	Expired	Balance	Expiry Year
2022	2,691,324	0	2,691,324	0	2025
2023	8,587,517	0	0	8,587,517	2026
2024	11,743,042	0	0	11,743,042	2027
2025	12,956,844	0	0	12,956,844	2028
	35,978,727	0	2,691,324	33,287,403	

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

	2025	2024
Tax on pretax profit at 25 per cent	53,177,050	28,428,650
Adjustments for income subjected to lower income tax rates	(8,709,919)	(8,816,201)
Tax effects of:		
NOLCO	15,101,498	10,662,364
Non-deductible expense	30,380,170	27,580,640
Non-taxable income	(22,723,910)	(7,491,158)
	67,224,889	**50,364,295**

The Bank reported a taxable loss for the year ending December 31, 2025. Details of Net Operating Loss Carry Over (NOLCO) as at December 31 is presented as follows:

Inception	Amount	Utilized	Expired	Balance	Expiry Year
2025	60,405,990	0	0	60,405,990	2028
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	
	2025	2024	2025	2024	2025	2024
Deferred tax assets:						
Allowance for impairment	546,866,149	565,406,540	(18,540,390)	(11,705,123)	0	0
Accumulated depreciation on investment properties	59,320,134	56,315,987	3,004,147	3,315,864	0	0
Post-employment defined benefit obligation	6,604,527	8,169,502	(22,362)	166,769	(1,525,113)	(432,560)
Unrealized losses on mark to market of FVTPL	(907,704)	313,994	(1,221,698)	1,165,620	0	0
Lease Liabilities	38,148,748	36,142,920	2,005,828	14,005,215	0	0
Unearned Bancassurance	7,322,218	7,744,093	(421,875)	(562,500)	0	0
Excess MCIT	33,287,403	23,021,883	0	0	0	0
	690,641,475	697,114,919	(15,196,350)	6,385,846	(1,525,113)	(432,560)
Deferred tax liabilities:						
Right –of-use asset	(33,791,386)	(32,117,831)	(1,673,554)	(14,003,224)	0	0
Accumulated unrealized gain on foreclosure	(21,394,330)	(7,242,652)	(14,151,679)	(6,164,400)	0	0
Past service cost	(5,939,769)	(4,576,137)	(1,363,632)	(1,317,716)	0	0
	(61,125,485)	(43,936,621)	(17,188,865)	(21,485,340)	0	0

	Statements of Financial Position		Statements of Income		Statements of Comprehensive Income	
	2025	2024	2025	2024	2025	2024
Net Deferred Tax Assets	**629,515,990**	**653,178,298**				
Deferred Tax Income			**(32,385,215)**	**(15,099,493)**	**(1,525,113)**	**(432,560)**

In **2025 and 2024**, the Bank opted to claim itemized deductions in computing for its income tax due.

27. EQUITY

27.1 Capital Stock

As at December 31, 2025 and 2024, 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 and issued for both years.

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

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

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

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

First, the IRR provides that the rules shall apply to all Government-Owned or Controlled Corporations[1] ("GOCCs"), which shall include financial institutions owned or controlled by

[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)

the National Government but shall exclude Acquired Asset Corporations[2]. The Bank submits that UCPBS is an Acquired Asset Corporation, and thus excluded from the GOCCs required to declare and remit dividends to the National Government.

Second, Section 7 (b) of the IRR allows a downward adjustment in the Dividend rate below the minimum 50 per cent in the following cases: (i) where there is a presence of a deficit as reflected in the GOCC's latest Statement of Equity; (ii) where the GOCC's viability or the purpose for which the GOCC has been established will be impaired by the payment of the required Dividends; (iii) where the declaration and remittance of Dividends at the minimum Dividend rate will result in a breach in minimum regulatory requirements (e.g. capital level and ratios as may be required by BSP); and, (iv) for GOCCs governed by the 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 National Government for its 2021 and 2022 Net Earnings pursuant to RA 7656. The Bank provided to DOF the requested necessary reports including UCPBS Capital Adequacy Ratio (CAR) and Basel Leverage reports (BLR) for quarters of 2022 last March 22, 2023.

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

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

Unclaimed dividends included in Other Liabilities account amounted to P21.78 million as of December 31, 2025 and 2024, respectively. (see Note 21).

As at December 31, 2025 and 2024, 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.

[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)

	Financial Asset at FVOCI (see Note 11.2)	Post-employment Defined Benefit Obligation (see Note 23.2)	Total
Balance as of January 1, 2025	**1,466,166**	**(28,029,182)**	**(26,563,016)**
Remeasurements of defined benefit post-employment plan	0	6,100,451	6,100,451
Fair value loss on financial assets at FVOCI	(951,306)	0	(951,306)
Other comprehensive loss before tax	(951,306)	6,100,451	5,149,145
Tax expense	0	(1,525,113)	(1,525,113)
Other comprehensive loss after tax	(951,306)	4,575,338	3,624,032
Balance as of December 31, 2025	**514,860**	**(23,453,844)**	**(22,938,984)**
Balance as of 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 of December 31, 2024	**1,466,166**	**(28,029,182)**	**(26,563,016)**

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, 2025 and 2024 the Bank's appropriated surplus pertaining to the General loan loss provisions amounted to P76.55 million and P3.36 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	2025	2024	2025	2024	Terms and Conditions
Parent Bank						
	Due from other banks	352,924,851	285,107,391	0	0	on-demand; 0.25%; unsecured
	Interest Income		0	7,492,029	68,876	1-7days; 2.53125% to 2.5625%; unsecured
	Interest Expense		0		0	1-4 days; 2.25%-2.28% unsecured
	Compensation & fringe benefits		0	7,113,259	4,107,743	non-interest bearing; unsecured
	Rent expense		0		3,750,505	non-interest bearing; unsecured
United Coconut Planters Life Assurance Corporation						
	Deposit liabilities	884,823	2,662,980		0	on-demand; interest bearing; unsecured
	Interest expense		0	13,738	7,409	on-demand; interest bearing; unsecured
UCPB-CIIF Finance and Corporation						
	Deposit liabilities	1,809,895	1,805,595		0	on-demand; interest bearing; unsecured
	Interest expense		0	406	373	on-demand; interest bearing; unsecured
Cocogen Insurance. Inc.						
	Deposit liabilities	1,072,316	3,678,231		0	on-demand; interest bearing; unsecured
	Interest expense		0	5,554	4,929	on-demand; interest bearing; unsecured

Details of the foregoing transactions follow:

28.1 Bank Deposits

The Bank has deposits accounts with the Parent Bank amounting to P353.23 million and P285.11 million as of December 31, 2025 and 2024, 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 P9.37 million and P68,876 in 2025 and 2024, 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 2025 and 2024, the parent charged the Bank expenses amounting to P7.11 million and

P4.11 million, respectively.

b. The Bank incurred rent expense amounting to P3.66 million and P3.75 million in 2025 and 2024 respectively, for the lease of Branch 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 recognized in the statements of income follow:

	2025	**2024**
Short-term benefits	7,113,259	4,107,743
	7,113,259	**4,107,743**

Deposit liabilities to key management personnel amounted to P0.75 million and P1.21 million for 2025 and 2024, respectively. Interest expense incurred on the deposit liabilities for 2025 and 2024 amounted to P1,196 and P9,623, 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, 2025 and 2024, 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 P45.18 million as of December 31, 2025 and P24.59 million for 2024. The related interest expense recognized by the Bank from these deposits amounted to P1.25 million and P1.16 million for 2025 and 2024, 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 30.7 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, 2025 and 2024, 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. 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*.

30.1 Selected Financial Performance Indicators

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

	2025	2024
Return on average equity	2.62%	3.28%
Net interest margin	5.19%	5.58%
Return on average assets	0.38%	0.51%

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.

30.2 Capital Instruments Issued

As of December 31, 2025, 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.

30.3 Significant Credit Exposures as to Industry / Economic Sector

As at December 31, 2025 and 2024, the information on the concentration of loans and discounts as to industry follows (in thousands, except for percentages):

	2025		2024	
	Amount	**%**	**Amount**	**%**
Loans to individuals primarily for personal use purposes	5,618,501	41%	4,820,349	37%
Real estate activities	3,789,306	28%	3,783,892	29%
Wholesale and retail trade, repair of motor vehicles	1,999,807	15%	2,136,315	16%
Financial and insurance activities	827,454	6%	878,782	7%
Agriculture, forestry and fishing	58,349	1%	51,572	1%
Education	327,003	2%	210,230	2%
Transportation and storage	101,137	1%	125,257	1%
Construction	188,073	1%	157,535	1%
Others	742,479	5%	823,613	6%
	13,652,109	**100%**	**12,987,545**	**100%**

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

30.4 Credit Status of Loans

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

	2025		
	Performing	**Non-performing**	**Total Loan Portfolio**
Gross Carrying Amount			
Corporate	2,791,340	2,936,144	5,727,484
Consumer	7,310,455	1,150,386	8,460,841
Allowance for ECL	(266,185)	(1,884,762)	(2,150,947)
Net Carrying Amount	**9,835,610**	**2,201,768**	**12,037,378**

	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**

As at December 31, 2025 and 2024, Non-performing loans (NPLs) not fully covered by allowance for credit losses as shown in the succeeding table, as follows:

	2025	**2024**
Total NPLs	3,546,530,083	4,060,384,829
NPLs fully covered by allowance for credit and impairment losses	(847,250,912)	(937,514,414)
	2,699,279,171	**3,122,870,415**

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:

	2025	2024
Due within one year	503,740,115	21,549,118
Due beyond one year but not beyond five years	85,848,397	628,102,485
Due beyond five years	434,786,133	507,708,761
	1,024,374,645	**1,157,360,363**

Restructured receivables earn annual interest rates ranging from seven per cent to 21 per cent for 2025 and seven per cent to 27 per cent in 2024.

30.5 Information on related party loans broken down as follows:

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

Existing BSP regulations also limit the total amount of credit exposure to each of the Bank's DOSRIs, at least 70 per cent of which must be secured, to the total of their respective deposits and book value of their respective unencumbered deposits and, if any, book value of their respective paid-in capital contribution in the Bank. In the aggregate, the Bank's total credit exposure to all its DOSRIs should not exceed its net worth or 15 per cent of its total loan portfolio, whichever is lower, with any unsecured portion thereof not exceeding the lower between 30 per cent of the aggregate limit or of the total actual exposure. However, loans and other credit accommodations to DOSRIs that are secured by assets considered by the BSP as non-risk are exempt from these ceilings. As of December 31, 2025 and 2024, 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:

	2025	**2024**
Total outstanding DOSRI loans	851,072	1,599,453
Unsecured DOSRI loans	851,072	1,470,887
Percent of DOSRI loans to total loans	0.01%	0.01%
Percent of unsecured DOSRI loans to total DOSRI loans	100.00%	91.96%
Percent of past due DOSRI loans to total DOSRI loans	99.79%	56.02%
Percent of non-performing DOSRI loans to total DOSRI loans	99.79%	56.02%

In 2025 and 2024, total interest income on DOSRI loans amounted to P69,230 and P0.27 million, respectively.

30.6 Secured Liabilities and Assets Pledged as Security

As of December 31, 2025, the Bank has no assets pledged as security for liabilities.

30.7 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:

	2025	**2024**
Late deposits	0	612,640
Items held for safekeeping	49,717	44,864
Others	6,782	7,335

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

31. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

The supplementary information which is required by the 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 Accounting Standards.

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 P76.87 million in 2025 and is shown as part of Taxes and Licenses in the 2025 statement of income [see Note 31(e)].

(b) Taxes on Importation

The Bank did not have any importations in 2025.

(c) Excise Taxes

The Bank does not have excise taxes accrued since it did not have any transactions subject to excise tax in 2025.

(d) Documentary Stamp Tax

Documentary stamp taxes (DST) paid and accrued in 2025 is presented below.

On loan documents	83,393,778
On mortgages, pledges, and deed of trust	2,505,840
On leases and other hiring agreements	105,738
On telegraphic transfer	359,490
	86,364,846

For the year ended December 31, 2025, DST affixed amounted to P86.36 million, of which P 32.01 million were charged to the Bank's client; hence, not reported as part of taxes and licenses [(see Note 31.(e)].

(e) Taxes and Licenses

The details of the taxes and licenses in 2025 are shown in the succeeding table:

	Note	
GRT	31(a)	76,869,694
DST		47,158,620
License and permit fees		6,480,226
Fringe benefit tax		1,188,371
Others		83,457
		131,780,368

(f) Withholding Taxes

The details of total withholding taxes in 2025 are shown below.

Compensation and benefits	23,024,701
Expanded	9,062,956
Business Tax	14,477,162
Final	64,151,535
	110,716,354

(g) Deficiency Tax Assessments and Tax Cases

As at December 31, 2024, the Bank is undergoing a tax audit by the Bureau of Internal Revenue (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, 2025. The Bank will continue to monitor developments and assess any financial impact that may arise from the resolution of the case.

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL ISSUE

1. The Deferred Tax Assets (DTA) amounting to P737.023 million as of December 31, 2025 continued to be recognized without an assessment demonstrating the probability that sufficient future taxable profit will be available to utilize the DTA, as required under Paragraphs 24 and 56 of Philippine Accounting Standard 12, thereby creating uncertainty as to the recoverability and fair presentation of the DTA balances in the financial statements.

1.1 Paragraph 24 of Philippine Accounting Standard (PAS) 12, Income Taxes provides that:

> "A *deferred tax asset shall be recognized* for all deductible temporary differences to the extent *that it is probable that taxable profit will be available* against which the deductible temporary difference can be utilized…"

1.2 Further, Paragraph 56 of PAS 12 provides that:

> "The *carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period.* An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized…"

1.3 Review of the DTA schedules disclosed that UCPBS recognized Net DTA amounting to P737.023 million as of December 31, 2025, representing deductible temporary differences and unused tax credits expected to be realized through future taxable profits.

1.4 The recognized DTA primarily relates to temporary differences in impairment losses and Expected Credit Losses (ECL), excess Minimum Corporate Income Tax (MCIT) credits available for carry- forward, and temporary differences arising from investment properties and lease liabilities. The composition of the Bank's Net Deferred Tax Assets as of December 31, 2025 is summarized below:

Particulars	Amount	% to Gross DTA
Deferred Tax Assets		
Allowance for credit and impairment losses	654,373,423.00	81.99%
Accumulated depreciation on investment properties	59,320,134.00	7.43%
Lease liabilities	38,148,748.00	4.78%
Excess MCIT	33,287,403.00	4.17%
Unearned bancassurance	7,322,218.00	0.92%
Post-employment defined benefit obligation	6,604,527.00	0.83%
Unrealized gain/(loss) on FVPL	(907,705.00)	(0.11%)
Gross Deferred Tax Assets	**798,148,750.00**	**100%**

Deferred Tax Liabilities	
Right-of-use asset	(33,791,385.00)
Accumulated unrealized gain on foreclosure	(21,394,330.00)
Past service cost	(5,939,769.00)
Total Deferred Tax Liabilities	**(61,125,485.00)**
Net Deferred Tax Assets	**737,023,265.00**

1.5 Review of the historical movement of the Bank's Net DTA from CY 2015 to CY 2025 disclosed that the Net DTA increased from P190.630 million in CY 2015 to P737.023 million in CY 2025 or a net increase of P546.393 million representing approximately 287 per cent over the period. Audit further noted that the DTA balance remained substantial increasing throughout the periods despite annual reversals and movements in certain components. The details are as follows:

Year	Net Deferred Tax Asset	Increase/(Decrease)
2015	190,630,165.00	-
2016	206,510,171.00	15,880,006.00
2017	217,912,840.00	11,402,669.00
2018	325,751,995.00	107,839,155.00
2019	425,749,847.00	99,997,852.00
2020	482,747,800.00	56,997,953.00
2021	672,845,190.17	190,097,390.17
2022	651,483,781.22	(21,361,408.95)
2023	656,967,309.37	5,483,528.15
2024	653,178,298.43	(3,789,010.94)
2025	737,023,264.14	83,844,965.71

Particulars	Amount
CY 2015 Net DTA	190.630 million
CY 2025 Net DTA	737.023 million
Net Increase	546.393 million
Percentage Increase	286.62%

1.6 The continued accumulation of DTA as shown in the table above indicates that the related tax benefits may be unrecoverable thus, the importance of a periodic reassessment of the recognized DTA in the books is required as provided under Paragraph 56 of PAS 12.

1.7 Further review of the total DTA recognized by UCPBS revealed that the P654.373 million, or 81.99 per cent of the gross DTA, pertains to deductible temporary differences arising from allowance for credit and impairment losses recognized over loans and other receivables. These temporary differences arose because impairment losses and ECL were recognized for financial reporting purposes prior to becoming deductible for income tax purposes.

1.8 To determine the nature of the impairment-related temporary difference, the Audit Team examined the supporting DTA schedules and traced the corresponding tax benefits to the underlying loan portfolio. The review disclosed that the impairment-related differences were associated with the recognized impairment of the 21,254 loan accounts amounting to approximately P1.553 billion. Analysis of the related aging schedules showed the following profile of the affected accounts:

Aging Bucket	No. of Accounts	Impairment Balance	% to Total Balance
5 years and below	437	P403.240 million	25.97%
6 years to 10 years	3,186	1.104 billion	71.08%
11 years to 20 years	3,902	46.220 million	2.98%
More than 20 years	13,729	0.015 million	0.00%*
Total	**21,254**	**P1.553 billion**	**100.00%**

*****Less than 0.01%.***

1.9 As presented in the table above, 3,902 accounts were already aged beyond 10 years, while 13,729 accounts or 64.59 percent were already aged beyond 20 years, based on the original grant dates of the related exposures. In addition, approximately P1.104 billion, or 71.08 percent of the total impairment balance pertained to accounts aged six to 10 years. These indicate that a substantial portion of the impaired loan portfolio remained outstanding for extended periods. Hence, the impairment-related temporary difference does not arise from the impaired accounts but from the future tax benefits expected to be realized from the corresponding impairment provisions recognized over impaired accounts

1.10 Consequently, the continued recognition of the DTA depends not only on the existence of the underlying deductible temporary differences but also on the probability that the related tax benefits will ultimately be realized through future reversals and utilized against future taxable profits, consistent with the requirement of Paragraph 24 of PAS 12.

1.11 While Management performed an ECL assessment during CY 2025 for purposes of determining the appropriate impairment provisions for financial reporting purposes, the Audit Team noted that such assessment primarily addressed the measurement of impairment losses and credit risk characteristics of the underlying loan exposures. Also, the Audit Team was not provided with the documentation on how Management evaluated the recoverability of the impairment-related temporary difference, including the timing of reversal, the expected application of the tax benefits, and the availability of sufficient future taxable profits. Consequently, the Audit Team was unable to ascertain the basis of the impairment-related temporary difference, which Management concluded that the recognized amount of P654.373 million remained probable of realization through future taxable profits and therefore continue to warrant recognition as DTA as of December 31, 2025.

1.12 In addition, the Bank likewise recognized a DTA amounting to P33.287 million arising from excess MCIT credits. Under existing tax regulations, excess MCIT credits may be carried forward and credited against future Regular Corporate Income Tax (RCIT) liabilities within the prescribed carry-forward period. Accordingly, the related tax benefits may only be realized to the extent that sufficient future RCIT liabilities arise before the expiration of the corresponding MCIT credits.

1.13 To assess the recoverability of the excess MCIT credits recognized as DTA, the Audit Team examined the Bank's Income Tax Returns (ITRs), tax reconciliation schedules, MCIT schedules disclosed in Note 26 to the Financial Statements, historical tax positions, and trends in taxable profitability. Audit results showed the recurring MCIT application, taxable losses, and increasing variances between accounting income and taxable income over the past years, as summarized below:

Year	Accounting Net Income	Taxable Income/(Loss)	Variance	Tax Position
2021	P5.573 million	P98.960 million	P93.387 million	RCIT
2022	P54.764 million	15.862 million	(38.902 million)	MCIT
2023	P77.367 million	(90.853 million)	(160.386 million)	MCIT
2024	P113.715 million	(42.649 million)	(156.364 million)	MCIT
2025	P212.928 million	(60.406 million)	(273.334 million)	MCIT

1.14 As shown above, the Bank remained subject to MCIT from CYs 2022 to 2025 and incurred taxable losses during CYs 2023 to 2025. The recurring MCIT position and taxable losses indicate that the availability of future taxable profits necessary to support the realization of the excess MCIT credits recognized as DTA cannot be presumed and therefore requires appropriate assessment and supporting analysis.

1.15 To verify the utilization of excess MCIT credits, the Audit Team examined the MCIT schedules disclosed in Note 26 to the Financial Statements and noted the following utilization history:

Year Incurred	Amount	Utilized	Expired	Balance	Expiry Year
2022	2,691,324.00	-	2,691,324.00	-	2025
2023	8,587,517.00	-	-	8,587,517.00	2026
2024	11,743,042.00	-	-	11,743,042.00	2027
2025	12,956,844.00	-	-	12,956,844.00	2028
Total	**35,978,727.00**	**-**	**2,691,324.00**	**33,287,403.00**	

1.16 The excess MCIT credits amounting to P2.691 million incurred in CY 2022 was reported by Management as expired in CY 2025 without utilization against RCIT liabilities. Further noted that none of the remaining outstanding excess MCIT credits amounting to P33.287 million had been utilized as of December 31, 2025. These indicate that the utilization of the recognized excess MCIT credits as DTA remains dependent on the Bank's ability to generate sufficient taxable income subject to RCIT within the prescribed carry-forward periods and is therefore not automatic. Accordingly, under Paragraphs 24 and 56 of PAS 12, the recognition of excess MCIT credits as DTA requires evidence supporting the probability that sufficient future taxable profits will be available to enable utilization of the related tax credits before expiration.

1.17 Nonetheless, the Audit Team was not provided with the excess MCIT credits utilization analysis and forecast of future taxable profits, or similar evaluation reports demonstrating that sufficient future taxable profits are expected to be available to utilize the excess MCIT credits amounting to P33.287 million within the prescribed carry-forward period. Consequently, the Audit Team was unable to ascertain the basis of the excess MCIT credits, which Management concluded that the amount of P33.287 million remained recoverable prior to expiration and therefore continue to warrant recognition as DTA as of December 31, 2025.

1.18 Moreover, the Audit Team reviewed the remaining DTA amounting to P111.396 million, consisting primarily of temporary differences arising from accumulated depreciation on investment properties amounting to P59.320 million, lease liabilities amounting to P38.149 million, and other DTA arising from unearned bancassurance income and post-employment defined benefit obligations aggregating P13.927 million.

1.19 Audit results disclosed that temporary differences arising from accumulated depreciation on investment properties increased from P56.316 million as of December 31, 2024 to P59.320 million as of December 31, 2025, while lease liabilities increased from P36.143 million to P38.149 million over the same period. Whereas the DTA arising from unearned bancassurance income and post-employment defined benefit obligations totaling P13.927 million were supported by movement schedules.

1.20 The Audit Team conducted inquiry into the procedures performed by Management to support the continued recognition of the DTA. Management indicated that the monitoring primarily consisted of tracking the annual movements of DTA and Deferred Tax Liability balances.

1.21 In view of the foregoing, the recognized DTA were supported by the corresponding accounting, annual movements of DTA and tax schedules, however, there were no assessment demonstrating the probability that sufficient future taxable profit will be available to utilize the DTA, as required under Paragraphs 24 and 56 of PAS 12, thereby creating uncertainty as to the recoverability and fair presentation of the DTA balance in the financial statements as of December 31, 2025.

1.22 **We recommended and Management agreed that through the Accounting Department, in coordination with the concerned tax and financial reporting units, to:**

a. **Perform and document a periodic DTA recoverability assessment at each reporting date, taking into consideration, among others, the nature and timing of reversal of deductible temporary differences, the utilization of excess MCIT credits and other tax benefits, historical and projected taxable profits, and other relevant evidence supporting the probability that sufficient future taxable profits will be available to utilize the recognized DTA; and**

b. **Consider reassessing the carrying amount of the recognized DTA and recognizing any necessary adjustments based on the results of such assessment.**

1.23 Management maintained that the recognition of DTA is based on its assessment that sufficient future taxable profits will be available to utilize the related deductible temporary differences and tax credits. Management stated that the Bank's improving financial performance and projected transition to a taxable position under the RCIT regime support the continued recoverability of the recognized DTA, including those arising from excess MCIT.

1.24 Management further informed that it has reassessed the DTA arising from impairment losses, including those related to additional ECL, and recorded the corresponding adjustments under Adjusting Entry No. 10 dated June 5, 2026, resulting in a net adjustment of P107.562 million to the recognized DTA balance.

1.25 Management is likewise committed to perform and document periodic DTA recoverability assessments at each reporting date, taking into consideration the timing of reversal of temporary differences, projected taxable profits, and utilization of tax credits, and recognize any necessary adjustments arising from such assessments in a timely manner.

1.26 The Audit Team acknowledged the reassessment of the UCPBS on certain components of DTA and the corresponding adjustment amounting to P107.562 million and will monitor the implementation of the recommendations.

2. Real and Other Properties Acquired comprising 493 properties with a carrying value of P678.240 million were classified and presented as Investment Properties despite being actively offered for sale under the Bank's disposal program, thus met the classification criteria for Non-Current Assets Held for Sale under paragraphs 6 to 9 of Philippine Financial Reporting Standard 5, and thereby resulting in the overstatement of Investment Property and corresponding understatement of Non-Current Assets Held for Sale by the same amount as of December 31, 2025.

2.1 Paragraphs 5 and 9 of Philippine Accounting Standard (PAS) 40, Investment Property provide:

> 5 Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:
>
> (a) use in the production or supply of goods or services or for administrative purposes; or
>
> (b) sale in the ordinary course of business.
>
> 9 The following are examples of items that are not investment property and are therefore outside the scope of this Standard.
>
> (a) Property intended for sale in the ordinary course of business or in the process of construction or development for such sale, for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale…

2.2 Furthermore, paragraphs 6 to 9 of Philippine Financial Reporting Standard (PFRS) 5, Non-Current Assets Held for Sale and Discontinued Operations require:

> 6 An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.
>
> 7 For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.
>
> 8 For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable.
>
> 9 Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group)…

2.3 The acquired assets held by the UCPBS represent foreclosed or repossessed Real and Other Properties Acquired (ROPA) from current operations and from the merger with UCPB Rural Bank, Inc. As of December 31, 2025, UCPBS manages a total of 954 real properties with an aggregate net book value of P1,134 million, which were classified and presented in the financial statements as Investment Properties. The classification suggests that the entire portfolio of real properties is held to earn rental income or for capital appreciation, consistent with the definition of Investment Property under paragraph 5 of PAS 40. This representation implies a singular purpose for all properties and creates the impression that none are intended for sale.

2.4 As of December 31, 2025, the Asset Held for Sale account of UCPBS amounting to P6 million consists solely of chattel properties acquired from foreclosure of collaterals, such as motorcycles and other vehicles. However, upon browsing the UCPBS website, particularly the section on acquired assets for sale, showed that, in addition to motor vehicles, 493 of the 954 ROPA with a net book value of P678 million were likewise being actively marketed for sale through public disposition activities.

2.5 Under the Bank's ROPA Manual, acquired properties refer to real and other properties, other than those used for banking purposes or held for investment, acquired by the Bank in full or partial settlement of loans through foreclosure or dation in payment, satisfaction of a judgment award, and/or for other reasons, whose carrying amount will be recovered principally through a sale transaction.

2.6 The ROPA Manual further provides that after a failed public bidding, the Special Asset Management Department (SAMD) shall solicit purchase offers, with or without the assistance of brokers, agents, and branches, and directly negotiate with prospective buyers the terms and conditions governing the sale of acquired assets through either individual negotiated sale or bulk sale arrangements.

2.7 Likewise, in cases where public bidding fails due to the presence of only one bidder, SAMD is required to determine whether the lone bidder is willing to convert the submitted bid into an offer for negotiated sale. If the bidder agrees and the offer is at least equal to the minimum bid price, the Asset Disposal Committee shall accept the negotiated offer and direct SAMD to process the sale. Conversely, where no bidder participates in the auction, the minimum bid price automatically becomes the initial selling price for negotiated sale.

2.8 The conduct of public auctions constitutes an active effort by the UCPBS to dispose of acquired assets and identify potential buyers. In instances where public bidding fails due to the absence of bidders, the presence of only one bidder, or non-complying offers, the Bank's disposal process does not cease. Instead, the Bank immediately shifts to negotiated sale arrangements, wherein SAMD actively solicits purchase offers, engages brokers, agents, and branches, and directly negotiates with prospective buyers. These actions demonstrate the Bank's continuing commitment to dispose of the acquired properties rather than retain them for long term use or investment purposes.

2.9 Furthermore, the provision allowing a lone bidder in a failed auction to convert the submitted bid into a negotiated offer, and the use of the minimum bid price as the initial negotiated selling price when no bidder is present, indicate Management's intent to expedite the disposal process rather than retain the assets for operational use. These procedures support the objective of recovering the carrying amount of the assets through sale transactions and provide evidence of Management's commitment to a plan to sell and the continuation of an active program to locate buyers, consistent with the indicators of a highly probable sale under PFRS 5.

2.10 Paragraphs 6 to 9 of PFRS 5 require that a non-current asset be classified as held for sale when its carrying amount will be recovered principally through a sale transaction rather than through continuing use. To qualify for such classification, the asset must be available for immediate sale in its present condition, subject only to terms that are usual and customary for such sales, and its sale must be highly probable. The standard further requires that Management be committed to a plan to sell, that an active program to locate a buyer has been initiated, and that the asset is actively marketed at a price reasonable in relation to its current fair value.

2.11 The classification of an asset as Investment Property under PAS 40 is not determined solely by the fact that it is a foreclosed real property. Rather, it depends on the purpose for which the property is held at the reporting date. Under paragraph 5 of PAS

40, investment property is property held to earn rentals, for capital appreciation, or both. Conversely, paragraph 9(a) expressly excludes from the scope of PAS 40 properties intended for sale in the ordinary course of business or acquired with a view to subsequent disposal in the near future. Accordingly, where Management has committed a property to an active disposal program and expects to recover its carrying amount principally through sale transactions, continued classification as Investment Property becomes inconsistent with the definition and scope provisions of PAS 40.

2.12 Accordingly, the identified 493 properties that have been subjected to public auction, negotiated sale procedures, and active marketing activities no longer appear to be held principally for earning rentals or for capital appreciation as contemplated under paragraph 5 of PAS 40. Rather, the Bank's established disposal procedures, active marketing efforts, engagement of brokers and agents, conduct of public auctions, and negotiation with prospective buyers indicate that recovery of the carrying amount of these properties is expected to be achieved principally through sale transactions. These circumstances are more consistent with the classification criteria prescribed under paragraphs 6 to 9 of PFRS 5 than with the definition of Investment Property under PAS 40.

2.13 Management explained that it has been the Bank's long-standing practice to recognize and classify acquired real properties as Investment Properties. Management further stated that the reclassification of properties intended for sale to Non-Current Assets Held for Sale is not specifically provided for in the Bank's existing ROPA policies and procedures.

2.14 The audit further noted that the prudential classification of acquired assets as ROPA for regulatory purposes does not determine their classification in the Bank's general purpose financial statements. BSP regulations governing ROPA operate alongside, and do not replace, the classification and presentation requirements prescribed under the PFRS Accounting Standards. Accordingly, acquired assets should be classified based on their purpose, intended manner of recovery, and surrounding circumstances at the reporting date. The continued classification of acquired assets as Investment Property solely on the basis of historical practice therefore does not by itself establish compliance with PAS 40 and PFRS 5.

2.15 Moreover, the absence of an explicit provision in the Bank's ROPA Manual requiring the reclassification of acquired properties to Non-Current Assets Held for Sale does not preclude the application of the requirements of PFRS 5. Asset classification should be based on the substance of the transaction, the purpose for which the asset is held, and compliance with the applicable PFRS Accounting Standards. Consequently, acquired properties that are actively marketed for sale and whose carrying amounts are expected to be recovered principally through sale transactions satisfy the classification criteria under PFRS 5 and should be presented as Non-Current Assets Held for Sale notwithstanding their historical classification as Investment Properties.

2.16 The continued classification of the 493 acquired properties amounting to P678 million as Investment Properties, despite circumstances indicating that their carrying amounts are expected to be recovered principally through sale transactions, resulted in the overstatement of the Investment Property account and the corresponding understatement of the Non-Current Assets Held for Sale account by the same amount as of December 31, 2025.

2.17 We recommended and Management agreed, that through the Asset Recovery and Management Division (ARMD), particularly the SAMD, in coordination with the Accounting Department (AD), to:

(a) Conduct a comprehensive assessment of all acquired properties currently classified as Investment Properties and determine, based on the criteria prescribed under PAS 40 and paragraphs 6 to 9 of PFRS 5, whether the carrying amount of each property is expected to be recovered principally through sale transactions rather than through continuing use, and reclassify those properties that satisfy the requirements of Non-Current Assets Held for Sale;

(b) Establish and implement formal policies and procedures governing the classification and reclassification of acquired properties, including the criteria, responsible units, supporting documentation requirements, monitoring mechanisms, and circumstances that would warrant the transfer of properties between Investment Property and Non-Current Assets Held for Sale accounts in accordance with PAS 40 and PFRS 5;

(c) Require the periodic review of properties classified as Investment Properties and Non-Current Assets Held for Sale to ensure that their accounting classification remains consistent with the purpose for which the properties are held, Management's disposition plans, and the applicable requirements of Philippine Financial Reporting Standards; and

(d) Reassess the classification of the 493 acquired properties amounting to P678,239,759.58 that are currently being subjected to public auction, negotiated sale, and other disposal activities, and record the necessary reclassification adjustments in the financial statements.

2.18 Management is conducting a granular assessment of the acquired properties portfolio, taking into consideration the redemption status, stage of disposal, and probability of sale of individual properties. Based on its initial assessment, Management identified 42 properties with an aggregate carrying value of P192.098 million for proposed reclassification from Investment Property to Non-Current Assets Held for Sale, with the corresponding accounting adjustments to be recognized upon completion of the review and approval process.

2.19 Management commits to complete a comprehensive property-level reassessment of all acquired real properties currently classified under Investment Properties to determine whether the carrying amounts of the affected assets are expected to be recovered principally through sale in accordance with paragraphs 6 to 9 of PFRS 5. Based on the results of the reassessment, additional properties that satisfy the classification criteria shall likewise be reclassified, with the corresponding accounting adjustments recognized in the books.

2.20 As part of the reassessment, Management shall evaluate the redemption status of each property, including the applicable statutory and regulatory redemption periods, in determining whether the assets are available for immediate sale. Properties that remain subject to redemption rights shall be assessed accordingly in relation to the classification requirements under PFRS 5.

2.21 Management further commits to review and update the Bank's existing policies, including the ROPA Manual and related accounting guidelines, to incorporate clearer provisions on the classification and reclassification of acquired properties between Investment Properties and NCAHS, the documentary and approval requirements supporting such classification, and the timely recognition and recording of related reclassification adjustments in accordance with the applicable financial reporting standards.

2.22 Management likewise commits to establish a structured periodic review mechanism to ensure that the classification of acquired properties remains aligned with the Bank's disposal strategy, marketability assessment, and prevailing conditions affecting sale. The results of such reassessments, including any corresponding accounting adjustments, shall be properly documented and reflected in the financial statements.

2.23 The Audit Team acknowledged the commitment of the UCPBS and will monitor the implementation of the recommendations.

3. Accrued Operating Expenses Payable – External Auditors amounting to P2.677 million remained outstanding as of December 31, 2025 without sufficient appropriate supporting evidence to substantiate the related obligation and the basis for its measurement, in accordance with Paragraph 14 of Philippine Accounting Standard 37, resulting in the overstatement of the account balance by the same amount.

3.1 Paragraph 14 of PAS 37, Provisions, Contingent Liabilities and Contingent Assets, prescribes the conditions that must be satisfied for the recognition of a liability, as follows:

> A provision (and by extension an accrued liability) shall be recognized only when:
>
> (a) an entity has a present obligation (legal or constructive) as a result of a past event;
>
> (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
>
> (c) a reliable estimate can be made of the amount of the obligation.

3.2 Further, Paragraph 15 of PAS 1, Presentation of Financial Statements provides:

> "Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework."

3.3 COA Circular No. 2012-001, under the General Requirements for All Types of Disbursements, requires the submission of:

> "Sufficient and relevant documents to establish validity of claim."

3.4 The same Circular likewise provides among the Fundamental Principles Governing Financial Transactions and Operations that:

> "Claims against government funds shall be supported with complete documentation."

3.5 Examination of the Accrued Operating Expenses Payable (AOEP) – External Auditors account with an outstanding balance of P2.677 million as of December 31, 2025 disclosed that the accruals pertained to amounts previously set up by UCPBS in anticipation of future external audit services to be rendered by a private auditing firm.

3.6 Verification with Management disclosed that the accruals were initially recorded based on estimated obligations in the absence of billings from a private auditing firm at the time of recognition.

3.7 Considering that the balance of AOEP- External Auditors had been long outstanding, the Audit Team requested the documents and records necessary to establish the liability. Specifically, evidence identifying the underlying transaction or event giving rise to the obligation, including engagement contracts or agreements, billing statements, statements of account, audit reports, service completion records, correspondence with the external auditor, and other relevant documents demonstrating that external audit services had been rendered, that a corresponding obligation to pay existed as of the reporting date, and that the amount recognized represented a reliable estimate of such obligation.

3.8 However, Management was unable to provide sufficient appropriate supporting documents to substantiate the previously recognized obligations to a private auditing firm. In the absence of evidence or records of the transactions, the Audit Team was unable to establish whether the accrual pertained to actual obligations of the Bank and whether the amount recognized remained valid as of December 31, 2025

3.9 Accordingly, the continued recognition of AOEP – External Auditors account amounting to P2.677 million, without sufficient appropriate supporting evidence to substantiate the existence, validity, and measurement of the obligation as of the reporting date in accordance with Paragraph 14 of PAS 37, resulting in the overstatement of the account balance by same amount.

3.10 **We recommended and Management agreed, that through the Accounting Department, in coordination with the concerned property custodians and other responsible units, to:**

a. **Conduct a comprehensive review and reconciliation of the AOEP – External Auditors account to identify and substantiate the specific obligations comprising the outstanding balance, including the transactions or events giving rise to the liability, the basis of the amounts recognized, and the status of the underlying obligations;**

b. Reconstruct and maintain the necessary supporting schedules, account analyses, billing records, reconciliation statements, and other relevant documents sufficient to establish the existence of the underlying obligation, the occurrence of the past event giving rise thereto, the basis of the amount recognized, and the continued satisfaction of the liability recognition criteria prescribed under PAS 37; and

c. Based on the results of the review and reconciliation, record the necessary accounting adjustments to ensure that only valid and supportable obligations that satisfy the liability recognition requirements under PAS 37 are recognized and carried in the books of accounts as of the reporting date.

3.11 Management confirmed that the AOEP – External Auditors balance amounting to P2.677 million was previously recognized based on best estimates in the absence of billings at the time the accrual was recorded. Management further stated that, as the related billings pertain to prior estimates, the previously recorded accrual will be reversed in 2026 to properly reflect the actual obligations in the books.

3.12 The Audit Team acknowledged the commitment of UCPBS and will monitor the implementation of the recommendations.

4. The valuation of 84 paintings with an aggregate carrying amount of P0.510 million recorded under Bank Premises, Furniture, Fixtures and Equipment remained unsupported by a clearly identifiable recognition and measurement basis, creating uncertainty as to whether the amounts assigned to the affected assets faithfully represent their underlying acquisition and valuation in accordance with the applicable recognition and measurement requirements under Philippine Financial Reporting Standard 3 and the fair presentation requirement under Paragraph 15 of Philippine Accounting Standard 1.

4.1 Pursuant to PFRS 3 on Business Combinations, identifiable assets acquired and liabilities assumed during a merger or consolidation that satisfy the applicable recognition criteria under the Conceptual Framework for Financial Reporting are required to be initially recognized at their respective fair values as of the acquisition date.

4.2 However, where valuation and accounting of the acquisition have not yet been fully completed by the end of the reporting period, provisional amounts may be recognized in the financial statements. Any adjustments to these provisional amounts should only be based on additional available information relating to facts and circumstances existing as of the acquisition date and must be finalized within the one-year measurement period.

4.3 The foregoing is consistent with the requirements set out under paragraphs 11, 18, and 45 of PFRS 3, that state:

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.

Measurement 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 recognised 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, measurement period shall not exceed one year from acquisition date."

4.4 Further, Paragraph 15 of PAS 1 requires financial statements to present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income, and expenses prescribed under the applicable financial reporting framework.

4.5 Examination of the Bank Premises, Furniture, Fixtures and Equipment (BPFFE) account disclosed that it includes 84 paintings with an aggregate carrying amount of P0.510 million recorded under Furniture, Fixtures and Equipment (FFE).

4.6 Inspection was conducted on the available paintings and review of accounting records, appraisal reports, and other relevant supporting documents was undertaken to trace the provenance, acquisition history, acquisition dates, and valuation bases of the affected assets and to determine whether the carrying amounts recognized in the books were supported by an identifiable measurement basis consistent with the applicable financial reporting framework.

4.7 During the validation, Management represented that certain paintings were acquired in prior periods, while others were obtained through the 2005 merger with UCPB Rural Bank, Inc. (URB). Management further explained that some dates reflected in the available records pertained only to subsequent branch transfers and internal movements and did not necessarily correspond to the original acquisition dates of the assets. However, the records made available for audit were insufficient to establish the original acquisition dates, acquisition costs, and the basis upon which the carrying amounts currently recognized in the books were initially determined.

4.8 Further review disclosed that no consolidated schedule or equivalent record was maintained identifying, on an asset-by-asset basis, the acquisition source, acquisition history, acquisition cost, valuation basis, or acquisition-date fair value of the paintings. As a result, the records available for audit did not permit the segregation of paintings acquired through the merger transaction from those acquired through other means, nor did they establish the measurement basis supporting the carrying amounts presently reflected in the accounting records.

4.9 Management likewise represented that the affected paintings were not subjected to revaluation or appraisal at their respective fair values at the time of the merger transaction. Management further communicated that certain carrying amounts, including values as low as P1.00, may not necessarily represent actual acquisition costs and could have been assigned as nominal or placeholder values for monitoring purposes.

4.10 As a result, neither the records made available for audit nor Management's representations established the acquisition-date fair values, acquisition costs, or other measurement bases supporting the carrying amounts currently recognized in the accounting records.

4.11 Management indicated that due to the lapse of time and limited availability of supporting records, it could no longer ascertain the original basis upon which several paintings were recognized and measured in the accounting records. Management further explained that the affected assets have since been maintained at minimal carrying amounts primarily for monitoring purposes.

4.12 Further verification disclosed that appraisal reports covering the paintings were prepared in June and September 2021. The appraisal reports assigned an aggregate appraised value of P16.986 million to the 84 paintings compared with their aggregate carrying amount of P0.510 million reflected in the accounting records. The appraisal reports covered paintings attributed to various Filipino artists and indicated individual appraised values ranging from several thousand pesos to as much as P12 million.

4.13 Management explained that the appraisal reports were commissioned primarily to determine the appropriate insurance coverage of the paintings and to support valuation considerations arising from the merger of UCPB with Land Bank of the Philippines (LBP) and other potential corporate transactions. Management further represented that the appraisal values were not recognized in the accounting records because the paintings were not held for investment purposes but were maintained as FFE displayed in the Bank's offices. Consequently, the appraisal results were not used as the basis for the carrying amounts reflected in the accounting records, and the paintings continued to be recorded at their existing carrying amounts.

4.14 Under Paragraphs 18 and 45 of PFRS 3, identifiable assets acquired through a business combination are required to be measured at acquisition-date fair values, while provisional measurements arising from incomplete acquisition accounting are intended to be finalized within the prescribed measurement period. Accordingly, the carrying amounts ultimately reflected in the accounting records should be capable of being traced to an identifiable measurement basis consistent with the requirements of the applicable financial reporting framework.

4.15 The inability to establish the acquisition source, acquisition-date valuation, and measurement basis of the affected paintings is further compounded by Management's representation that paintings associated with the merger transaction were not subjected to fair value determination at the time of the merger and that certain carrying amounts, including values as low as P1.00, may merely represent nominal or placeholder amounts maintained for monitoring purposes. Taken together with Management's uncertainty regarding the original basis of recognition of several paintings, these circumstances precluded the Audit Team from tracing the recognition and measurement history of the affected assets and from determining whether the carrying amounts presently reflected in the accounting records remain supported by a clearly identifiable and verifiable measurement basis.

4.16 The foregoing likewise bears directly on the fair presentation requirement under Paragraph 15 of PAS 1. Since fair presentation requires the faithful representation of transactions and events in accordance with the applicable recognition and measurement requirements of the financial reporting framework, the inability to establish the acquisition source, valuation basis, and accounting treatment of the affected paintings creates uncertainty as to whether the carrying amounts assigned to the affected assets faithfully represent the underlying transactions, events, and measurement bases that gave rise to their recognition in the accounting records.

4.17 In the absence of records establishing the acquisition source, acquisition-date valuation, and measurement basis of the affected paintings, the Audit Team was unable to determine whether, and to what extent, the acquisition-date fair value provisions of PFRS 3 were applicable to the individual assets. Consequently, the basis supporting the carrying amounts currently reflected in the accounting records could not be clearly established, thereby creating uncertainty as to whether the reported amounts of the affected paintings faithfully represent the underlying transactions and events in accordance with the recognition and measurement principles of PFRS 3 and the fair presentation requirements of Paragraph 15 of PAS 1.

4.18 We recommended, and Management agreed to direct the General Services Department, in coordination with the Financial Accounting and Tax Management Department (FATMD) to:

> **a. Conduct a comprehensive review of the 84 paintings and establish, to the extent practicable, their acquisition source, acquisition history, basis of recognition, and measurement basis, including identification of paintings acquired through the merger transaction and those acquired through other means;**
>
> **b. Reconstruct and maintain appropriate records supporting the recognition, valuation, and accounting treatment of the affected paintings, including documentation evidencing the basis of the carrying amounts currently reflected in the accounting records; and**

c. Based on the results of the review, assess whether any accounting adjustments or other actions are necessary to ensure that the amounts assigned to the paintings are supported by a clearly identifiable recognition and measurement basis consistent with the applicable financial reporting framework.

4.19 Management conducted a review of the 84 paintings using the 2021 appraisal reports and available records relating to the acquisition and transfer history of the affected assets. Based on the review, Management classified the paintings according to their appraised values and available information on their acquisition or transfer periods.

4.20 Based on the results of the review, Management proposed to retain under FFE the 32 paintings with appraised values of P50,000 and above, pending further reconstruction and validation of supporting records, and to undertake the necessary evaluation and processing for derecognition of the remaining 52 paintings with appraised values below the capitalization threshold prescribed under COA Circular No. 2022-004, subject to compliance with the applicable accounting, auditing, and property disposal rules and regulations.

4.21 Management is likewise committed to continue the reconstruction and maintenance of supporting records relating to the acquisition, transfer history, valuation, and accounting treatment of the paintings, and to recognize the necessary accounting adjustments arising from the review to ensure that the affected balances are properly supported and fairly presented in the financial statements.

4.22 The Audit Team acknowledged the commitment of UCPBS and will monitor the implementation of the recommendations.

B. NON-FINANCIAL ISSUES

5. The unsecured Salary Loan Portfolio of the UCPBS continued to carry long-outstanding non-performing exposures amounting to P232.919 million as of December 31, 2025, of which P158.891 million remained outstanding for more than one year and P27.578 million had already progressed to litigation, thereby prolonging the recovery cycle of affected accounts and increasing exposure to expected credit losses.

5.1 Item Nos. 4 of Chapter XII of the UCPB Savings Bank Credit Manual provide that:

> "All delinquent accounts shall be subject to collection call outs. Collection call-outs may include:
>
> a. Making of collection calls;
> b. Sending of text messaging;
> c. Ocular inspection or field visit;
> d. Skip tracing;
> e. Asset or property checking;
> f. Sending of Collection Letter or Attorney's Demand Letter;
> g. Endorsement to External Collection Agency (ECA) (case-to-case basis);
> h. Endorsement to Legal (case-to-case basis).

5.2 Item Nos. 6 to 9 prescribe the collection procedures and escalation process applicable to delinquent accounts. The Manual requires delinquent accounts to be subjected to prompt and continuing collection actions beginning from one (1) day past due. Within three banking days from default, Collection Specialists are required to verify the status of the account and initiate collection call-outs through phone calls, text messages, field visits, skip tracing activities, collection letters, or other appropriate recovery measures. The Manual further requires collection efforts to continue until the obligation is settled and prescribes a graduated escalation process consisting of Reminder Notices for accounts aged one (1) to thirty (30) days past due, Final Demand Letters for accounts aged thirty-one (31) to sixty (60) days past due, and Attorney Demand Letters for accounts that remain unpaid thereafter, with eventual endorsement to legal action when warranted.

5.3 Section X306.4 of the BSP Manual of Regulations for Banks (MORB) likewise provides that:

> "Loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any."

It further provides that:

> "Non-performing loans shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interest is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written off."

5.4 UCPB Savings Bank's Kasama Mo Salary Loan (KMSL) is a salary-based unsecured lending product granted to qualified employees of accredited entities. The KSML portfolio consists of salary loan facilities extended to government and business entities. Under the Government Entity Salary Loan (GESL) segment are the Payroll Service Plan Loan (PSPL), which is granted primarily to Department of Education (DepEd) teaching and non-teaching personnel, and the Payroll Service Non-DepEd (PSND), which covers employees of national government agencies, local government units, and other accredited government institutions. The loan is primarily underwritten on the basis of the borrower's regular salary, pension, or other fixed compensation, with repayment ordinarily effected through payroll deductions, debit arrangements, mobile payments, over-the-counter payments, or other payment arrangements agreed upon by the borrower and the Bank.

5.5 Unlike secured lending arrangements where repayment may be supported by collateral, the collectability of salary loan accounts under the GESL segment, including PSPL and PSND accounts, substantially depends on the borrower's continuing employment, receipt of regular compensation, and the uninterrupted implementation of payroll deduction arrangements. Consequently, circumstances affecting the borrower's employment status, salary releases, or deduction capacity may directly affect the timeliness and continuity of loan repayments.

5.6 Review of the detailed schedule of PSPL and PSND accounts under the GESL segment as of December 31, 2025 disclosed that UCPBS maintained a total loan portfolio of P4.916 billion comprising 34,595 borrower accounts. Of this amount, P205.340 million covering 1,714 accounts were classified as non-performing loans (NPLs), while an additional P27.578 million covering 305 accounts had already been endorsed to litigation. Accordingly, total non-performing exposures reached P232.919 million involving 2,019 borrower accounts. The aging profile of the PSPL and PSND portfolio is presented as follows:

Loan Status	No. of Accounts	Loan Age				Total Loans
		Less than 30 days	31 days to 90 days	91 days to 365 days	More than 365 days	
Current	18,002	4,637,090,254.15				4,637,090,254.15
Performing Past Due Accounts	227	3,141,182.28	42,559,401.91			45,700,584.19
Non-Performing Past Due Accounts	1,714	2,639,067.62	410,745.31	43,309,262.14	158,981,259.66	205,340,334.73
Items in Litigation	305	278,907.22	343,020.68	2,548,111.02	24,408,301.57	27,578,340.49
Accounts Written off	14,347				14,671.00	14,671.00
Total	**34,595**	**4,643,149,411.27**	**43,313,167.90**	**45,857,373.16**	**183,404,232.23**	**4,915,724,184.56**

5.7 Analysis of the aging profile disclosed that the Bank's non-performing exposures amounting to P232.919 million were predominantly composed of long-outstanding accounts. Of this amount, P158.981 million, or approximately 68 per cent, remained outstanding for more than one year, while P27.578 million had already progressed to litigation.

5.8 Further review disclosed that approximately 98 per cent, or P229.247 million, of the total non-performing exposures had already remained delinquent for more than 90 days, while only approximately one per cent, or P3.672 million, pertained to accounts aged less than 90 days. The aging composition demonstrates that the non-performing portfolio is overwhelmingly concentrated in mature delinquent accounts rather than recently defaulted obligations.

5.9 The foregoing conditions indicate that substantial portion non-performing PSP and PSND portfolio has remained unresolved in the passage of time or over extended periods despite the collection and recovery measures undertaken by the Bank.

5.10 Inquiries with Collection Specialists and the analysis of common issues identified across regional branch audits disclosed that payment defaults commonly arise when the payroll deduction mechanism is disrupted by circumstances such as retirement, resignation, transfer of employment, administrative cases affecting payroll releases, and limitations on salary deductions arising from compliance with the government-prescribed minimum net take-home pay (NTHP) requirement. According to Management, when such circumstances occur, the automatic deduction of loan amortizations from the borrower's salary may be reduced, suspended, or discontinued, thereby affecting the regular collection of loan repayments.

5.11 Management explained that delinquent salary loan accounts under the KSML portfolio, including those under the GESL segment such as PSPL and PSND, are subject to strict monitoring at the Head Office. Once an account becomes one day past due (DPD), Collection Specialists are required to verify whether the missed payment resulted from an actual payment default or a technical issue before collection actions are initiated. Upon confirmation that no payment has been received, Collection Specialists immediately commence collection call-outs through phone calls and other collection procedures prescribed under the Credit Manual, which continue until the obligation is updated, settled, or otherwise resolved.

5.12 Where borrowers can no longer be contacted through their registered contact information, collection efforts are escalated through field visits, skip tracing activities, and other lawful means to establish the borrower's whereabouts and obtain updated contact details. Accounts that remain unpaid despite repeated collection efforts are subsequently subjected to demand procedures and, when warranted, endorsement to the Legal Department for the institution of appropriate legal action. Management further explained that attorney demand letters are issued prior to endorsement for legal action, and accounts that remain unpaid despite the issuance of demand letters may ultimately progress to litigation.

5.13 Management further stated that collection of accounts belonging to retired employees may still be facilitated through deductions from retirement or separation benefits. Likewise, transferred employees may continue servicing their loan obligations through over-the-counter payments, auto-debit arrangements, or updated payroll deduction arrangements where applicable. However, collection of accounts of resigned employees remains particularly challenging when no final pay, retirement benefits, or separation benefits are available against which outstanding obligations may be offset. Management likewise cited compliance with the prescribed NTHP requirement as a factor affecting collection, since loan deductions may be reduced or deferred to ensure that employees retain the minimum NTHP required under government regulations.

5.14 According to Management, the Bank has established processes for the periodic review and administration of non-performing salary loan accounts. At the operational level, Regional Collection Supervisors monitor the collection work-out activities of Collection Specialists and the profile of affected accounts, the results of which are consolidated and reviewed by the Collection Department. Management explained that these reviews provide portfolio-level insights into the nature and behavior of non-performing salary loan accounts and serve as inputs in refining collection approaches and recovery strategies. It was further explained that the results of these reviews are elevated to the Management Committee, Risk Oversight Committee, and Board of Directors through monthly reporting mechanisms.

5.15 As part of this process, the Bank maintains collection and account-resolution initiatives for non-performing salary loan accounts, including recovery targets through write-off programs, payment arrangements, and legal recovery actions. Delinquent accounts are monitored according to aging buckets to facilitate early intervention and prevent further deterioration of account quality. Accounts considered no longer recoverable are subjected to established write-off procedures, while written-off accounts continue to be referred to external collection agencies for further recovery efforts.

5.16 Management further disclosed that the Bank periodically reassesses the adequacy of its credit and risk mitigation controls through reviews conducted by the Branch Lending Department and Collection Department. As part of these initiatives, Management cited enhancements adopted during 2025, including the use of Gross Monthly Income in evaluating borrower capacity, expanded co-maker requirements for identified higher-risk borrower segments, and additional documentary requirements intended to strengthen repayment capacity assessment and portfolio quality. Management further indicated that additional control enhancements continue to be evaluated as part of its ongoing credit risk management process.

5.17 It was Likewise explained that a portion of the non-performing salary loan portfolio consists of legacy accounts granted prior to the enhancement of the Bank's credit review processes. Management also emphasized that the salary loan portfolio's non-performing loan ratio remains within the Bank's established risk parameters and compares favorably with industry benchmarks. While Management's explanations provide context regarding the overall condition and performance of the portfolio, these do not negate the recovery status of the long-outstanding delinquent accounts reflected in the records as of December 31, 2025.

5.18 While these explanations provide context regarding the overall condition and performance of the portfolio, they do not alter the recovery status of long-outstanding delinquent accounts reflected in the records as of December 31, 2025.

5.19 Notwithstanding the foregoing collection, recovery, monitoring, reporting, and risk mitigation initiatives, the aging profile disclosed that non-performing exposures amounting to P232.919 million remained outstanding as of December 31, 2025, of which P158.981 million had remained delinquent for more than one year and P27.578 million had already progressed to litigation. These balances indicate that a significant portion of affected accounts remained unresolved and continued to require extended collection, recovery, and legal enforcement efforts.

5.20 Viewed together, the aging profile and the foregoing collection and recovery information indicate that recovery of a substantial portion of delinquent salary loan accounts has extended well beyond the normal repayment cycle contemplated under the lending arrangement. The concentration of non-performing exposures in aged accounts and the progression of a portion thereof to litigation demonstrate the continued difficulty in resolving affected accounts once the primary repayment mechanism is disrupted.

5.21 This condition may be attributed primarily to the inherent dependence of salary loan products on payroll deduction arrangements as the principal repayment mechanism. Once payroll deductions are reduced, suspended, or discontinued due to resignation, retirement, transfer of employment, administrative cases, minimum NTHP limitations, and similar circumstances, recovery becomes dependent on alternative collection and recovery measures such as voluntary borrower payments, retirement or separation benefit offsets, co-maker enforcement, payment arrangements, and legal recovery proceedings. While the Bank has implemented various collection, recovery, monitoring, and risk mitigation initiatives to address these situations, the effectiveness and timing of such measures may be influenced by factors beyond the Bank's direct control, thereby extending the period required to resolve delinquent accounts and recover outstanding exposures.

5.22 As a result, a portion of the salary loan portfolio remains subject to prolonged collection and recovery efforts beyond the normal repayment cycle of the loan product. The extended recovery period increases exposure to collection and recoverability risks ordinarily associated with long-outstanding receivables. Consequently, long-outstanding delinquent accounts remain exposed to heightened risk of non-recovery, which may adversely affect portfolio recoverability and increase exposure to expected credit losses.

5.23 We recommended and Management agreed, that through the Asset Recovery and Management Division, develop measurable recovery and resolution targets for long-outstanding delinquent salary loan accounts, particularly those outstanding for more than one year and those already under litigation, and strengthen the monitoring and timely implementation of alternative recovery measures for accounts affected by payroll deduction disruptions, including resignation, retirement, transfer of employment, administrative cases, and minimum net take-home pay limitations, to facilitate the timely resolution of aged non-performing exposures.

5.24 Management informed that the Bank is committed to formulate and approve action plans with specific timelines, account-resolution targets, responsible units, recovery strategies, and periodic monitoring and reporting requirements for long-outstanding delinquent salary loan accounts. Management further stated that the Bank continuously reviews the implementation of such action plans, including the achievement of account-resolution targets and recovery strategies through its existing monitoring and reporting mechanisms. To this end, the Bank has the following processes, every month, in order to ensure that such tasks are done.

a. Department level review of NPL accounts;
b. Monthly NPL Report to Management Committee;
c. Monthly NPL Report to ROC
d. Monthly NPL Report to Board of Directors

5.25 Given these processes, the Bank ensures that it is continuously reviewing whether the actions plan it has identified have specific timelines, account resolution targets/ recovery strategies and responsible units charged.

5.26 The Bank is aligned with the COA's proactive approach to further strengthening credit controls. The Bank is committed to continuously enhance its periodic portfolio-level assessments as the Bank believes that this will lead to continuous improvement and reinforcement of its recovery strategies to accelerate the resolution of past due loans.

5.27 The Audit Team acknowledged the commitments of the UCBPS and will monitor the implementation of the recommendations.

6. Several UCPBS branches continued to maintain Cash-in-Vault balances in excess of approved benchmark limits during CY 2025, indicating that the Bank has not yet achieved sustained compliance with the cash ceiling requirements established under Items 1.1 to 1.4 of the UCPBS Branch Operations Manual on Cash Management particularly on the CIV – Cash Ceiling.

6.1. Chapter I of the Bank’s Branch Operations Manual on Cash Management particularly on the Cash in Vault – Cash Ceiling provides 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 BOO/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 Branch Banking Division (BBD) at the end of the day.
Xxx

6.2. Given the volume of cash maintained across its branch network, UCPBS established CIV benchmark limits under its Branch Operations Manual on Cash Management to ensure that branch cash holdings remain commensurate with operational requirements while minimizing exposure to cash custody risks.

6.3. Pursuant to Sections 1.1 and 1.2 thereof, all 48 branches and 12 branch-lite offices are required to maintain CIV balances within approved benchmark limits determined on the basis of historical cash requirements and anticipated transaction volumes, and to undertake prescribed mitigating measures whenever excess balances arise. These benchmark limits form part of the UCPBS's internal control framework intended to regulate branch cash exposure, facilitate the timely disposition of excess cash, and promote the efficient utilization of available funds.

6.4. Considering that compliance with prescribed CIV benchmark limits forms an integral part of the UCPBS cash management and internal control framework, the condition remained subject to validation during the CY 2025 audit. In particular, a review was conducted to determine whether the corrective measures implemented by Management in response to the prior year's audit observation had effectively addressed the recurring incidence of excess CIV balances. For this purpose, Monthly CIV Monitoring Reports, branch-level Audit Observation Memoranda (AOMs), Agency Action Plan and Status of Implementation (AAPSI), and explanations submitted by branch management were examined and analyzed. In addition, the results of branch-level audits conducted across various regions were consolidated and evaluated to determine whether excess CIV balances remained isolated occurrences or continued to recur across the Bank's branch network notwithstanding the corrective measures undertaken by Management.

6.5. The review disclosed that excess CIV balances continued to occur across several UCPBS branches during CY 2025 notwithstanding the corrective measures implemented by Management in response to the prior year's audit observation. Similar conditions were previously reported during the CY 2024 audit and became the subject of audit recommendations and corresponding management actions. However, the consolidated results of branch-level audits and monthly CIV monitoring reports showed that excess CIV holdings remained prevalent across various branch categories, including provincial branches, branch-lite units, and Metro Manila branches, as summarized below:

Month 2025	No. of Branches that exceeded the CIV Limit Benchmark	Total Excess Cash in Vault (CIV)	Percentage (Excess/Benchmark)
January	16	47,615,336.66	43.89%
February	10	31,707,780.99	57.13%
March	20	71,906,728.40	51.00%
April	14	22,961,963.14	25.51%
May	24	61,870,565.54	35.05%
June	22	78,717,912.21	38.47%
July	9	18,203,799.11	35.69%
August	6	7,342,204.37	27.71%
September	16	63,007,818.74	53.26%
October	11	38,742,161.43	47.48%
November	17	28,525,934.08	23.81%
December	27	108,385,801.39	44.35%

6.6. As shown above, the number of branches exceeding approved CIV benchmark limits ranged from six in August 2025 to 27 in December 2025, while aggregate excess balances ranged from P7.34 million to P108.39 million during the year. Excess balances exceeded 40 per cent of prescribed benchmarks in five months and remained above 20 per cent in all months except one, indicating that the condition was neither isolated nor occasional in nature.

6.7. Consolidation and analysis of branch-level Audit AOMs further disclosed that the condition was not confined to isolated incidents or occasional operational fluctuations but was characterized by recurring and repeated exceedances of approved CIV benchmark limits within the same branches throughout CY 2025. The results showed that several branches consistently maintained excess CIV balances despite the prescribed controls and corrective measures implemented by Management.

6.8. Among the branches with the highest frequency of excess CIV occurrences were Tuburan Branch with 162 instances, Banaue Branch with 151 instances, Naga Branch with 141 instances, Palo Branch Lite with 140 instances, and Sogod Branch with 123 instances. Other branches likewise exhibited recurring excesses, including La Trinidad Branch with 100 instances, Rizal Avenue Branch with 93 instances, Gandara Branch Lite with 88 instances, Bacolod Branch and Batac Branch with 69 instances each, Alabang Branch with 55 instances, Borongan Branch with 36 instances, Metropolitan Branch with 28 instances, and Ormoc Branch with five instances during the year.

6.9. The recurrence of excess CIV balances in the same branches over multiple occasions indicates that the condition was not attributable solely to isolated operational requirements, seasonal cash demands, unexpected cash inflows, or logistical constraints affecting geographically remote locations. This observation is supported by the fact that recurring excesses were noted not only among provincial and branch-lite offices but also among Metro Manila branches, including Banaue Branch, Rizal Avenue Branch, and Alabang Branch, which likewise recorded significant numbers of benchmark exceedances during the year. The consolidated results of branch-level audits suggest that the condition extends beyond branch-specific operational circumstances and reflects a more pervasive issue affecting the consistent implementation of the Bank's cash management framework across its branch network.

6.10. During the prior year's audit, Management attributed the occurrence of excess CIV balances to operational cash requirements, anticipated client withdrawals, seasonal increases in cash demand, late-day cash inflows, delays in cash transfers, and limitations in cash pick-up arrangements. To address these factors, Management committed to undertake various corrective measures, including the reassessment of branch benchmark levels, enhancement of monitoring and reporting procedures, strengthened coordination for the disposition of excess cash balances, and the implementation of alternative cash servicing arrangements.

6.11. Validation of the AAPSI disclosed that the foregoing corrective measures were reported as implemented. Audit noted that Management had reassessed branch benchmark levels, enhanced monitoring and reporting procedures, implemented Deposit Pick-Up (DPU) arrangements with Land Bank of the Philippines (LBP) following the expiration of armored car service contracts in October 2024, and introduced branch-level compliance initiatives, including standardized escalation protocols and the integration of CIV compliance metrics into branch performance scorecards. Notwithstanding these measures, excess CIV balances continued to recur across numerous branches during CY 2025.

6.12. Nevertheless, branch-level audits and Monthly CIV Monitoring Reports disclosed that excess CIV balances remained prevalent across provincial and Metro Manila branches during CY 2025, with the number of affected branches and aggregate excess balances remaining at levels comparable to those reported in the preceding year. This indicates that while the corrective measures were implemented, the condition they were intended to address remained substantially unresolved.

6.13. The recurring excess CIV balances may be attributed, in part, to the absence of clearly defined escalation and accountability procedures under the Branch Operations Manual on Cash Management for branches that continue to maintain excess cash balances beyond approved benchmark limits. While the Manual requires Branch Operations Officers to maintain CIV balances within approved benchmarks, prescribes the mitigating measures to be undertaken whenever excess balances occur, and requires the reporting of CIV levels to the Branch Banking Division (BBD), it does not prescribe the actions to be taken when excess balances persist despite the implementation of such measures, including the escalation of recurring exceedances for management review and intervention. Consequently, excess CIV balances may continue to recur notwithstanding the implementation of the prescribed mitigating measures and monitoring requirements under existing guidelines.

6.14. The Audit Team further noted that while Management reported the integration of CIV compliance metrics into branch performance scorecards as part of its corrective measures, recurring benchmark exceedances continued to be observed among several branches throughout CY 2025, including branches with a significant number of exceedance occurrences. This indicates that existing performance monitoring mechanisms may not yet be sufficient to promote sustained compliance with prescribed CIV benchmark limits or effectively reinforce accountability for recurring excess balances at the branch level.

6.15. Moreover, while excess CIV balances were regularly reported through branch-level monitoring mechanisms, the Audit Team noted that no formal requirement under the Branch Operations Manual on Cash Management for the periodic consolidation and reporting of recurring benchmark exceedances to Senior Management. As a result, recurring excess CIV balances may not be subjected to a level of management review and intervention commensurate with the frequency and persistence of the condition across the branch network.

6.16. Taken together, the foregoing circumstances indicate that while monitoring mechanisms, mitigating measures, and branch-level compliance initiatives were in place, the existing control framework did not provide sufficient assurance that recurring excess CIV balances would be effectively addressed and reduced within approved benchmark limits. In the absence of clearly defined escalation procedures, formal management intervention mechanisms, and accountability measures for recurring benchmark exceedances, excess CIV balances continued to recur across numerous branches notwithstanding the corrective actions previously implemented by Management.

6.17. Consequently, the intended objectives of the Bank's CIV benchmark framework were not fully achieved. By repeatedly maintaining cash holdings beyond approved benchmark levels, affected branches continued to retain cash in excess of amounts considered necessary to support normal operational requirements. As a result, the benchmark limits were not able to effectively regulate branch cash exposure or facilitate the timely disposition of excess cash as contemplated under the Branch Operations Manual on Cash Management.

6.18. Moreover, the continued retention of excess cash balances in branch vaults increased the amount of cash exposed to custody, security, and operational risks beyond the levels deemed acceptable under the Bank's established cash management framework. At the same time, excess funds that could otherwise have been transferred, invested, or utilized for other operational purposes remained idle at the branch level, thereby limiting the Bank's ability to optimize the deployment and utilization of its available cash resources.

6.19. We recommended that Management:

a) **Enhance the Branch Operations Manual on Cash Management to include accountability and escalation procedures for Branches that continue to maintain excess CIV balances beyond approved benchmark limits;**

b) **Require the Branches with recurring CIV benchmark exceedances to conduct and document root-cause analyses and corrective action plans, indicating the factors contributing to the excess balances, measures to**

address the underlying causes, responsible officers, and target dates for achieving compliance;

c) **Strengthen oversight and monitoring by the Branch Banking Division (BBD) through the periodic review of branches with repeated CIV benchmark deviations and the implementation of corrective interventions for branches exhibiting persistent non-compliance;**

d) **Formalize and institutionalize the consideration of CIV benchmark compliance in branch and personnel performance evaluation systems by incorporating measurable CIV compliance indicators into branch performance scorecards and the performance assessment of Branch Operations Officers (BOOs), with clearly defined compliance thresholds, escalation triggers, and corresponding accountability measures for recurring or sustained benchmark exceedances; and**

e) **Require regular reporting to Senior Management on branches with recurring CIV benchmark exceedances, including the status of corrective actions and compliance trends, to facilitate timely management intervention and reinforce accountability for sustained adherence to the Bank's cash management framework**

6.20. Management, through the Branch Banking Division, acknowledged the recurring excess CIV balances observed in certain branches during CY 2025. It cited the implementation of corrective measures, including the reassessment of CIV benchmarks, enhanced monitoring procedures, Deposit Pick-Up arrangements, and the integration of CIV compliance metrics into branch performance scorecards. Management further explained that some excess CIV occurrences were influenced by operational and logistical constraints such as cash pick-up schedules, servicing bank limitations, geographical factors, and fluctuations in branch cash transaction volumes.

6.21. To address the recurring deviations, Management committed to review and enhance existing guidelines, strengthen branch-level monitoring, formalize escalation procedures, and implement regular reporting to Senior Management.

6.22. The Audit Team acknowledged the commitment of the UCPBS and will monitor the implementation of the recommendations.

7. Titles covering 52 Transfer Certificates of Title relating to Real and Other Properties Acquired accounts with an aggregate carrying amount of P240.228 million remained unconsolidated and were not transferred in the name of UCPB Savings Bank after the applicable redemption periods had lapsed, contrary to Sections 6.1 and 6.2 of the ROPA Manual, thereby delaying the completion of ownership transfer requirements and the effective administration of the acquired properties.

7.1 Section 5.1 of the Real and Other Properties Acquired (ROPA) Manual of the UCPBS prescribes the redemption periods applicable to foreclosed real properties and provides that:

"In the event of foreclosure, whether judicial or extra-judicial, of any mortgage on real estate, the former registered owner shall have the right to redeem his property within the prescribed redemption period, as follows:

a. Natural person – within one (1) year from the date of registration of the Certificate of Sale (COS) with the appropriate Registry of Deeds.

b. Juridical person – before registration of the COS with the applicable Registry of Deeds which in no case shall be more than three (3) months from foreclosure (auction) date, whichever comes first.

7.2 Section 6.1 of the ROPA Manual further requires the Special Assets Management Department (SAMD), upon expiration of the redemption period, to initiate the title consolidation process and provides that:

> SAMD shall, after the expiry of the redemption period, coordinate with Legal Services Division for the consolidation of title and transfer of tax declaration (for both land and improvements) in the name of the Bank.

7.3 Section 6.2 of the ROPA Manual likewise requires the Legal Services Division to undertake the registration and transfer activities necessary to complete the consolidation process and provides that:

> LSD shall prepare/execute an Affidavit of Consolidation/Final Sale on the foreclosed/attached property, pay Transfer Tax and register the same with the proper Registry of Deeds upon submission of the following documents, whichever are applicable...

7.4 Under the ROPA acquisition process, the Collection Department endorses foreclosed accounts and supporting documents to the Legal Services Division (LSD), which undertakes the foreclosure proceedings, secures and registers the Certificate of Sale (COS), and thereafter turns over the registered COS, annotated title, and related property documents to the Special Assets Management Department (SAMD). Upon receipt of these documents, SAMD initiates the recognition and recording of the acquired property as ROPA and coordinates with the concerned units for the corresponding accounting entries and maintenance of property records.

7.5 Verification with LSD and the Accounting Department disclosed that ROPA accounts are recognized upon completion of foreclosure proceedings and receipt of the registered COS, which serves as the primary supporting document for the recognition and recording of the acquired property. Following the expiration of the applicable redemption period prescribed under Section 5.1 of the ROPA Manual, SAMD is required to coordinate with LSD for the consolidation of title and transfer of tax declarations in the name of the Bank, while LSD is responsible for the preparation, registration, and completion of the documents necessary to effect the transfer of ownership.

7.6 To determine compliance with the title consolidation requirements under Sections 6.1 and 6.2 of the ROPA Manual, the Audit Team examined the Schedule of Investment Properties and related records maintained by SAMD, including title consolidation status reports, borrower classifications, and other supporting documents. Likewise, determined the applicable redemption periods and corresponding redemption expiration dates based on Section 5.1 of the ROPA Manual and the dates reflected in the records maintained by SAMD supporting the recognition and recording of the related ROPA accounts.

7.7 Results of the examination disclosed that as of December 31, 2025, titles covering 52 TCTs relating to ROPA accounts with an aggregate carrying amount of P240,228,007.92 remained unconsolidated and were not yet transferred in the name of the UCPBS notwithstanding Management's determination that the applicable redemption periods had already lapsed. Based on records maintained by SAMD, the affected properties had remained pending title consolidation for periods ranging from six to 163 months after the expiration of the applicable redemption periods, detailed below:

Reason for Non-Consolidation	No. of TCTs	Carrying Amount	Months Elapsed Since Expiration of Redemption Period
Reason for non-consolidation not yet established; property under evaluation	21	20,713,914.14	7 to 163
Incomplete documents required for title consolidation	13	29,322,892.94	43 to 145
Awaiting release of Condominium Certificate of Management (COM)	10	130,758,293.27	47 to 48
Consolidation of TCT expected by end of July 2026	1	1,534,155.55	42
Awaiting release of Electronic Certificate Authorizing Registration (eCAR)	1	4,160,301.00	34
Awaiting release of TCT from the Registry of Deeds	1	19,579,124.63	7
Certificate of Sale requires correction prior to title consolidation	4	2,855,326.38	6
Total	**52**	**240,228,007.91**	

7.8 Considering the length of time involved in the completion of title consolidation due to various documentary, registration, and administrative matters, as presented in the table above, it was noted that the title consolidation and registration activities required under Sections 6.1 and 6.2 of the ROPA Manual were not completed within a reasonable period following the lapse of the redemption period. Consequently, several acquired properties remained unconsolidated and were not transferred in the name of the Bank for extended periods. While Management cited documentary, registration, and administrative matters as contributing to the delays, these do not diminish the fact that the title consolidation and ownership transfer requirements under Sections 6.1 and 6.2 of the ROPA Manual remained outstanding for extended periods.

7.9 The title consolidation process under Sections 6.1 and 6.2 of the ROPA Manual is intended to complete the transfer and registration of ownership in the name of the Bank following the lapse of the redemption period and to establish the necessary ownership records for the administration and disposition of acquired properties. Consequently, the continued non-consolidation of titles delayed the completion of ownership transfer and related property records and increased the risk of unresolved documentary, registration, and ownership-related issues requiring additional administrative effort and resources to complete the process. Management attributed the delays to pending documentary, registration, and administrative matters, including incomplete documentary requirements, correction of Certificates of Sale, issuance of eCAR, release of Condominium Certificates of Management, and release of transferred titles by the Registry of Deeds.

7.10 **We recommended, and Management agreed, that the Asset Recovery and Management Division, through the SAMD, in coordination with the LSD, implement measures to:**

a. **expedite the consolidation and registration of titles covering ROPA accounts whose redemption periods have already expired;**

b. **establish target completion dates and accountability mechanisms for long-outstanding unconsolidated properties;**

c. **promptly resolve outstanding documentary, registration, and legal issues affecting the title consolidation process; and**

d. **strengthen the monitoring and reporting of pending title consolidation activities to ensure timely compliance with Sections 6.1 and 6.2 of the ROPA Manual.**

7.11 Management stated that the SAMD, in coordination with the LSD, continues to monitor unconsolidated titles through the monthly ROPA Inventory Profile Report, which is presented during Asset Disposal Committee meetings for monitoring and disposition planning. Management further represented that a dedicated Writ of Possession and Consolidation Project Team under LSD was created to expedite title consolidation and address documentary, registration, and legal impediments affecting the transfer of ownership.

7.12 Based on Management's latest assessment, the 52 unconsolidated titles were classified according to the complexity of the required work-out actions, with three titles already consolidated and six targeted for consolidation by June 2027. The remaining properties continue to be monitored and worked out, subject to the resolution of documentary deficiencies, tax-related issues, and other legal or registration constraints.

7.13 Management likewise committed to strengthen account-level monitoring and reporting of unconsolidated titles and to initiate amendments to the ROPA Manual to address accounts with prolonged documentary, tax, and legal impediments that may require extended periods for consolidation.

7.14 The Audit Team acknowledged the commitment of the UCPBS and will monitor the implementation of the recommendations.

8. Unapplied collections and other temporary credit balances lodged under Accounts Payable aggregating P32.682 million remained outstanding beyond the periods prescribed under Paragraphs I.2 and I.3 of the Guidelines on Disposition of Long Outstanding Accounts Payable of UCPBS as of December 31, 2025, indicating non-compliance with established monitoring controls and weaknesses in the timely resolution of outstanding accounts.

8.1 Paragraph I.2 of the Guidelines on Disposition of Long Outstanding Accounts Payable of the UCPB Savings Banks provides that:

> "All transactions booked as Accounts Payable shall be considered as a temporary account and should not remain outstanding for a maximum of six (6) months..."

8.2 The same provision further prescribes shorter allowable periods for specific transactions such as identified excess loan payments and Land Bank accounts.

8.3 Paragraph I.3 of the same Guidelines provides that the responsible units shall:

> "review/analyze subsidiary ledgers for accounts payables daily and determine long outstanding AP (beyond 6 months) from date of incurrence" and "recommend the reversal of AP" when warranted.

8.4 Paragraphs III.D, III.E and IV of the Loans Operations Department Manual prescribe procedures for the verification, posting, monitoring, and application of loan payments to borrowers' accounts to ensure that collections received are properly recorded and applied to the corresponding loan obligations.

8.5 Examination of the Accounts Payable balances totaling P209.007 million maintained in the books as of December 31, 2025 showed that the account primarily consisted of collections, fees, incentives, settlement obligations, and other credit balances received or recognized by the Bank pending application, settlement, remittance, refund, reconciliation, or other appropriate disposition.

8.6 Unlike ordinary trade payables arising from the acquisition of goods and services, a substantial portion of the foregoing balances represented temporary holding accounts intended to facilitate the processing, validation, reconciliation, application, settlement, remittance, or disposition of specific transactions. Consequently, the balances are generally expected to be cleared once the underlying transaction has been completed and the appropriate disposition has been determined. As such, continuous monitoring and timely resolution are necessary to ensure compliance with the Guidelines on Disposition of Long Outstanding Accounts Payable.

8.7 Review of the subsidiary ledgers disclosed that the outstanding Accounts Payable balances were primarily composed of unapplied loan collections, BancNet obligations, supplementary loan collections, dealer incentives, insurance-related collections, electronic money cashcard balances, fees collected from borrowers for specific loan-related transactions, and various miscellaneous credit balances pending verification or settlement, as summarized in the next page:

Description	***TOTAL***	***Percentage***
Unapplied Loans	99,024,864.22	47.38%
Bancnet	44,814,401.11	21.44%
PSPL SUPPLEMENTARY COLLECTION	27,127,569.76	12.98%
Dealers Incentive	14,439,139.97	6.91%
Others	11,628,831.22	5.56%
Insurance	3,827,538.45	1.83%
Electronic Money Cashcard	2,625,212.16	1.26%
Incentive	1,545,359.08	0.74%
Documentary Stamps	1,342,418.28	0.64%
Registration	1,244,448.10	0.60%
Notarial Fee	528,060.01	0.25%
Appraisal fees	346,211.43	0.17%
Restructuring	241,545.17	0.12%
Chattel Mortgage	214,567.50	0.10%
ATM	56,400.00	0.03%
Total	**209,006,566.46**	

8.8 Unapplied Loans amounting to P99.025 million pertained to loan collections received by the Bank but not yet applied to the corresponding loan accounts. Under normal circumstances, such collections are intended to reduce or settle identified borrower obligations and are therefore expected to be verified, matched, and applied through the payment processing procedures established under the Loans Operations Department Manual. As these collections are received for a specific purpose, the balances are inherently temporary and should ordinarily be resolved once the corresponding borrower and loan account have been identified and validated.

8.9 BancNet balances totaling P44.814 million represented the UCPBS's settlement obligations to other member banks of the BancNet network arising from interbank transactions performed by its clients, such as Automated Teller Machine withdrawals, point-of-sale purchases, and electronic fund transfers. These obligations are ordinarily settled through the Philippine Payment and Settlement System (PhilPaSS) on the next banking day through debits to the Bank's Demand Deposit Account maintained with the Bangko Sentral ng Pilipinas. By their nature, these balances are expected to be settled through established clearing and settlement procedures within a relatively short period.

8.10 PSPL Supplementary Collections amounting to P27.128 million consisted of collections associated with the PSPL portfolio that remained pending processing or application. Similar to unapplied loan collections, these balances represent payments received from borrowers for the purpose of reducing outstanding loan obligations and are therefore expected to be applied to the corresponding borrower accounts upon completion of the required validation and reconciliation procedures.

8.11 Dealers Incentive balances totaling P14.439 million represented the amounts payable to qualified dealers, marketing partners, or other entitled parties arising from lending-related transactions. Since the balances relate to obligations expected to be settled upon completion of validation and supporting documentation requirements, periodic review is necessary to determine whether the underlying obligations remain valid, payable, and properly supported.

8.12 Other Accounts Payable amounting to P11.629 million consisted of various miscellaneous credit balances awaiting verification, reconciliation, settlement, or other disposition. Given the diverse nature of these balances, continuous monitoring is necessary to determine the status of the underlying transactions and ensure that the appropriate accounting treatment is applied.

8.13 Insurance-related balances totaling P3.828 million represented collections associated with insurance products or insurance-related obligations arising from lending activities. Depending on the nature of the transaction, these balances are ordinarily expected to be remitted to the appropriate insurance providers, applied to the related accounts, refunded when warranted, or otherwise settled upon completion of the underlying transaction.

8.14 Electronic Money Cashcard balances amounting to P2.625 million represented collections received through electronic payment facilities that remained pending reconciliation or application. Given the electronic and traceable nature of the underlying transactions, these balances are likewise temporary in nature and are expected to be resolved upon completion of the necessary reconciliation and validation procedures.

8.15 Documentary Stamp collections amounting to P1.342 million, Registration Fees amounting to P1.244 million, Notarial Fees amounting to P0.528 million, Appraisal Fees amounting to P0.346 million, Restructuring amounting to P0.241 million, and Chattel Mortgage Fees amounting to P0.215 million represented amounts collected from borrowers for specific loan-related services and transactions. Since these collections relate to identifiable transactions and specific obligations, they are ordinarily expected to be utilized, remitted, recognized, refunded, or otherwise settled upon completion of the related activities.

8.16 While the foregoing balances arose from transactions of varying nature and purpose, they share a common characteristic in that they were recorded under Accounts Payable on a temporary basis pending the completion of validation, reconciliation, settlement, remittance, application, refund, or other disposition procedures. Accordingly, the balances are expected to be resolved within the periods prescribed under existing Bank policies and guidelines.

8.17 To determine compliance with the prescribed periods for disposition of temporary Accounts Payable balances, the Audit Team analyzed the aging of the outstanding balances and noted the following:

	Description	*less than 180 days but not less than 90 days*	*180 days to 1 year*	*More than 1 year*	*More than 2 years*	*TOTAL*
a	Unapplied Loans	71,963,370.12	23,223,521.61	1,466,382.08	2,371,590.41	99,024,864.22
b	Bancnet	44,814,401.11				44,814,401.11
c	PSPL SUPPLEMENTARY COL	27,127,569.76				27,127,569.76
a	Dealers Incentive	14,439,139.97				14,439,139.97
b	Others	8,160,781.93	1,009,526.20	1,062,288.94	1,396,234.15	11,628,831.22
c	Insurance	2,509,585.32	1,314,893.13	3,060.00	-	3,827,538.45
a	Electronic Money Cashcard	1,893,950.72	113,010.41	104,768.97	513,482.06	2,625,212.16
b	Incentive	1,542,368.65	-	2,990.43		1,545,359.08
c	Documentary Stamps	1,325,241.80	17,176.48			1,342,418.28
a	Registration	1,244,448.10				1,244,448.10
b	Notarial Fee	444,660.01	82,900.00	500.00	-	528,060.01
c	Appraisal fees	346,211.43				346,211.43
a	Restructuring	241,545.17	-	-	-	241,545.17
b	Chattel Mortgage	214,567.50				214,567.50
c	ATM	56,400.00				56,400.00
Total		**176,324,241.59**	**25,761,027.83**	**2,639,990.42**	**4,281,306.62**	**209,006,566.46**

8.18 The aging analysis disclosed that Accounts Payable balances aggregating P32.682 million remained outstanding beyond 180 days from date of incurrence, including the unresolved for more than one year totaling P2.640 million and unresolved for more than two years totaling P4.281 million as of December 31, 2025.

8.19 The existence of Accounts Payable balances that remained outstanding beyond the prescribed periods of six months indicates that the required review, validation, reconciliation, application, settlement, and disposition procedures under the Guidelines on Disposition of Long Outstanding Accounts Payable were not completed within the prescribed periods.

8.20 Analysis of the Accounts Payable balances reflected in the foregoing aging schedule further disclosed that unapplied loan collections constituted a significant portion of the long-outstanding items. Of the total P32.682 million balances that remained outstanding beyond 180 days, P27.061 million, or approximately 82.8 percent, pertained to unapplied loan collections, including P3.838 million that remained unresolved for more than one year.

8.21 Considering that these collections were received for the specific purpose of reducing or settling borrower obligations and that the Bank has established procedures governing the verification, posting, and application of loan payments, the prolonged retention of unapplied collections under temporary Accounts Payable account indicates that the corresponding identification, validation, matching, and application procedures were not completed within the prescribed periods.

8.22 The same aging schedule likewise showed that balances under the “Others” account aggregating P3.468 million remained outstanding beyond 180 days, including P2.459 million that remained unresolved for more than one year. Considering the diverse nature and varying disposition requirements of these balances, their continued existence indicates that the necessary validation, reconciliation, and disposition procedures were not completed within the periods necessary to determine the appropriate accounting treatment and ultimate disposition of the balances.

8.23 The aging schedule further showed that insurance-related balances amounting to P1.318 million remained outstanding beyond 180 days. Since these balances pertained to collections or obligations that were expected to be remitted, applied, refunded, settled, or otherwise disposed of upon completion of the related transactions, the persistence of these balances beyond the prescribed periods indicates that the corresponding remittance, application, refund, settlement, or other disposition procedures were not completed within the prescribed periods.

8.24 Likewise, Electronic Money Cashcard balances amounting to P0.731 million remained outstanding beyond 180 days, of which P0.618 million remained unresolved for more than one year, including P0.513 million that had remained outstanding for more than two years. Considering the electronic and traceable nature of the underlying transactions, the prolonged retention of these balances indicates that the required reconciliation, validation, and other disposition procedures were not completed within the prescribed periods.

8.25 Further validation of the long-outstanding Accounts Payable balances disclosed that certain balances classified under “Others”, Electronic Money Cashcard, and Insurance-related balances pertained to transactions with distinct operational, contractual, and regulatory characteristics that affect the timing and manner of their eventual disposition.

8.26 Management explained that Accounts Payable balance under “Others” included progress billings for various projects, including corresponding retention fees that are contractually subject to release only upon the lapse of the retention period or completion of contractual requirements, as well as fraud-related balances that remain subject to ongoing investigation and resolution. Likewise, Management represented that Electronic Money Cashcard balance pertained to customer-related balances arising from card-based or electronic money transactions recognized under Accounts Payable in compliance with applicable Bangko Sentral ng Pilipinas (BSP) regulations, while Insurance-related balances pertained to annual premium payments and related transactions subject to reversal or settlement upon completion of the coverage period or approval of the related transactions.

8.27 The foregoing indicates that while the affected balances were recorded under Accounts Payable, certain account classifications are subject to varying contractual, regulatory, and operational conditions that may not be fully contemplated under the existing Guidelines on Disposition of Long Outstanding Accounts Payable, which presently prescribe a general retention, review, and reversal framework applicable to Accounts Payable balances as a whole.

8.28 Management informed the Audit Team that the continued existence of the long-outstanding Accounts Payable balances was attributable to various operational and account-specific circumstances, as follows:

a. Delays in the submission of remittance lists by borrower agencies. Management explained that while loan remittances from agencies are sometimes received by the Bank, the corresponding remittance lists identifying the individual borrowers and the amounts applicable to their respective loan accounts are not always submitted at the same time. In the absence of such details, the collections are temporarily lodged under Accounts Payable–Loan Payments pending validation, reconciliation, and proper application to the affected borrower accounts;

b. Temporary accumulation of payments from borrowers undergoing loan restructuring. Management stated that collections from borrowers applying for loan restructuring are temporarily recorded under Accounts Payable–Restructuring and accumulated until the borrower satisfies the required payment threshold and other restructuring conditions. This is intended to prevent the premature application of partial payments under the Bank's system, which automatically applies collections to penalties, interest, and principal in sequence and may not align with the terms of the proposed restructuring arrangement; and

c. Payments received through direct fund transfers. Management further explained that some borrowers remit payments directly to the Bank's account instead of through the designated Bills Payment facility. In such cases, the transaction details may not readily identify the paying borrower or the loan account to which the payment pertains. As a result, the collections are temporarily recorded under Accounts Payable–Loans pending verification, reconciliation, and proper application.

8.29 While the foregoing circumstances may contribute to delays in the application, reconciliation, or disposition of certain balances, the Audit Team noted that substantially similar explanations were previously cited by Management in response to AOM No. 2023-01 (2022 USB), wherein long-outstanding Accounts Payable balances were likewise attributed to pending restructuring approvals, ongoing reconciliation procedures, incomplete collection information, and unresolved documentary requirements.

8.30 Notwithstanding the foregoing circumstances and the corrective measures previously undertaken by Management to strengthen monitoring and facilitate the disposition of outstanding Accounts Payable balances, significant aged balances continued to exist as of December 31, 2025. The persistence of substantially similar conditions over multiple periods indicates that existing monitoring, reconciliation, validation, and disposition controls require further strengthening to ensure the timely identification, investigation, escalation, and resolution of long-outstanding Accounts Payable balances.

8.31 The recurrence of balances that remained outstanding beyond the periods prescribed under the Guidelines on Disposition of Long Outstanding Accounts Payable further indicates that the controls established to monitor temporary Accounts Payable accounts may not have been sufficient to consistently prevent the accumulation of aged balances and ensure their timely application, settlement, reconciliation, or disposition in accordance with existing Bank policies.

8.32 As a result, the Accounts Payable balances aggregating P32.682 million remained outstanding beyond the prescribed periods, including unresolved for more than one year totaling P2.640 million and unresolved for more than two years totaling P4.281 million as of December 31, 2025.

8.33 The prolonged retention of temporary Accounts Payable balances increases the risk that collections, fees, incentives, insurance collections, and other credit balances may not be applied, remitted, refunded, settled, reconciled, or otherwise disposed of on a timely basis. Consequently, the validity, accuracy, completeness, and faithful representation of the Accounts Payable, Loan and Receivable accounts, and other related accounts in the financial statement balances may be adversely affected. The accumulation of long-outstanding unapplied collections likewise limits Management's ability to effectively monitor collection activities and ensure that borrower loan records are updated on a timely basis.

8.34 We recommended and Management agreed, that through the Accounting Department (AD), in coordination with the Loan Accounting Department (LAD) and other concerned operating units, to:

a. **Conduct a comprehensive review and reconciliation of long-outstanding Accounts Payable balances, particularly unapplied loan collections, and insurance-related, Electronic Money Cashcard, and miscellaneous credit balances, and ensure that the corresponding transactions are validated, applied, settled, refunded, remitted, reversed, or otherwise disposed of in accordance with the Guidelines on Disposition of Long Outstanding Accounts Payable;**

b. **Strengthen monitoring, reconciliation, and disposition controls over temporary Accounts Payable account by establishing periodic aging analysis, resolution targets, escalation procedures, and accountability mechanisms to facilitate the timely identification, investigation, and resolution of long-outstanding balances;**

c. **Review and enhance existing procedures governing the processing and application of loan collections, including those involving delayed remittance**

lists, restructuring-related collections, and direct fund transfer payments, and update the Guidelines on Disposition of Long Outstanding Accounts Payable to incorporate differentiated retention, monitoring, and disposition parameters for specific Accounts Payable classifications according to the nature and underlying conditions of the transactions; and

d. Require the periodic reporting of long-outstanding Accounts Payable balances and the status of resolution efforts to Management to facilitate oversight, monitor compliance with prescribed disposition periods, and ensure the timely implementation of corrective actions.

8.35 Management reported that of the P32.682 million long-outstanding Accounts Payable balances as of December 31, 2025 P18.618 has already been applied and reversed as of May 31, 2026. The remaining balances primarily pertain to borrower payments under existing loan arrangements and collections received through channels with insufficient remittance details, which remain subject to validation, reconciliation, and application.

8.36 The remaining P5.517 million pertains to various Accounts Payable classifications with differing contractual, operational, and regulatory characteristics, including project-related retention fees, fraud-related balances under investigation, customer-related electronic money transactions recognized under Accounts Payable in compliance with BSP regulations, and the insurance-related balances subject to reversal or settlement upon completion of the applicable coverage periods or related approvals.

8.37 Management affirms that these account classifications shall be incorporated in the ongoing review and updating of the Guidelines on Disposition of Long Outstanding Accounts Payable to establish clearer retention, monitoring, and disposition parameters. Management further commits to strengthen reconciliation, monitoring, aging analysis, escalation, and periodic reporting to facilitate the timely settlement of outstanding balances and prevent recurrence.

8.38 The Audit Team acknowledged the commitment of UCPBS and will monitor the implementation of the recommendations.

Gender and Development (GAD)

9. Review of the UCPBS's GAD Plans, Budget, and Accomplishment Reports for CY 2025 disclosed that while the Bank complied with the minimum GAD budget allocation requirement, weaknesses remained in its GAD governance and implementation mechanisms, as evidenced by the absence of the required multi-year GAD Agenda, the non-functional status of its GAD Focal Point System, and the minimal utilization of the GAD budget.

a. UCPBS has yet to formulate its multi-year GAD Agenda contrary to PCW Memorandum Circular No. 2018-04.

9.1 Section 3.1.1 and 3.1.2 of PCW Memorandum Circular No. 2018-04 provides that the GAD Agenda shall serve as the agency's strategic framework and plan on mainstreaming and achieving women's empowerment and gender equality.

9.2 The GAD Agenda shall serve as the basis in identifying programs, activities, and projects, and shall provide the monitoring and evaluation framework for assessing GAD results and outcomes.

9.3 The Audit Team noted that despite prior audit recommendations and Management's earlier commitment to formulate the Bank's GAD Agenda, the same remains unprepared as of December 31, 2025.

9.4 In the absence of the GAD Agenda, the Bank's annual GAD planning remains activity-based and lacks a long-term strategic framework to systematically address institutional and client-focused gender issues.

b. The Bank's GAD Focal Point System (GFPS) remains non-functional due to pending reconstitution and approval.

9.5 Section 4.1 of PCW-NEDA-DBM Joint Circular No. 2012-01 provides that all agencies shall have an institutionalized and functional GFPS as an essential element in GAD planning and budgeting.

9.6 Inquiry with Management disclosed that several previously designated GAD focal persons are no longer connected with the Bank, resulting in operational gaps in the Bank's GAD governance mechanism.

9.7 Management explained that the reconstitution of the GFPS remains pending Board approval of the updated composition of focal persons. Consequently, the Bank has not been able to convene the necessary meetings and planning sessions for its GAD activities.

9.8 The absence of a fully functional and updated GFPS weakens the Bank's institutional capacity to coordinate, monitor, and implement its GAD programs and initiatives.

c. Despite allocating P28.315 million or 5.08 per cent of its total budget for GAD, actual utilization amounted to only P22,773 or 0.08 per cent of the total GAD allocation.

9.9 Section 6.1 of PCW-NEDA-DBM Joint Circular No. 2012-01 requires that at least five per cent of the total agency budget shall be allocated to GAD-related activities.

9.10 Review of the Bank's GAD Budget and Fund Utilization Report disclosed that the Bank allocated P28.315 million, equivalent to 5.08 per cent of its total budget of P556.869 million for CY 2025.

9.11 However, actual GAD expenditures amounted to only P22,773, representing only 0.08 per cent utilization of the total GAD allocation.

9.12 Further, review of the GAD Accomplishment Report disclosed that only three GAD activities were implemented during the year, consisting of the National Women's Month Celebration and two Red Cross Blood Donation Drives.

9.13 The minimal implementation of GAD activities and the substantial underutilization of the GAD budget indicate weak execution of planned GAD interventions and limit the Bank's ability to achieve meaningful gender-responsive outcomes.

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

a. **Complete and adopt the Bank's multi-year GAD Agenda in accordance with PCW Memorandum Circular No. 2018-04;**

b. **Expedite the reconstitution and formal Board approval of the updated GFPS;**

c. **Strengthen the implementation, monitoring, and evaluation of GAD programs and activities to ensure that allocated GAD funds are effectively utilized for their intended purposes; and**

d. **Provide the reconstituted GFPS and concerned personnel with appropriate GAD capacity-building training to improve compliance with GAD planning, budgeting, and implementation requirements.**

9.15 The Bank committed to strengthen its GAD governance and implementation framework by completing and adopting its multi-year GAD Agenda in accordance with PCW Memorandum Circular No. 2018-04, reconstituting the GAD Focal Point System (GFPS) and securing the corresponding Board approval, and coordinating with the Philippine Commission on Women for the conduct of capacity-building training within the third quarter of 2026 to support the development of its GAD Plan and Multi-Year GAD Agenda and improve the implementation and utilization of GAD funds.

9.16 The Audit Team acknowledged the commitment of UCPBS and will monitor the implementation of the recommendations.

Compliance with Tax Laws

10. Information on taxes, duties and license fees paid or accrued during the taxable year 2024 is disclosed in Note 31, 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.

10.1 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.

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

10.3 The Bank's Management and its legal counsel believe that the Bank has valid grounds to contest the assessment, and as such, no provision has been recognized in the financial statement as of December 31, 2025. The Bank will continue to monitor developments and assess any financial impact that may arise from the resolution of the case.

10.4 As at December 31, 2024, the Bank is undergoing a tax audit by the Bureau of Internal Revenue for the taxable year 2021.

11. SSS, Philhealth and Pag-IBIG Fund Premiums

a. In 2025, the Bank complied with RA No. 8282 on the collection and remittance of contributions to SSS as follows:

b. Mandatory monthly contribution of covered employees and employer in accordance with Section 18; and

c. Remittance of employees' and employer's contributions and employees' compensation premium within the due date pursuant to Section 19.

11.1 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.

11.2 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

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

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 13 audit recommendations embodied in the CY 2024 Annual Report, 12 were implemented, and one was not implemented. The audit observation with the corresponding not implemented recommendation is presented below:

Reference	Audit		Status of Implementation
	Observation	Recommendation	
CY 2022 AAR Observation No. 4 pages 104 to 106	Ownership to seven (7) 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. 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 merger, all rights, privileges, properties, branches, offices, and franchises of the absorbed entity are transferred by operation of law to the surviving corporation, without 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 TCT's under the name of UCPBS. Appraisals have been completed, and coordination with the Office of the Government Corporate Counsel is going to determine the most practical and cost-efficient approach to titling the subject properties.