



## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
Sterling Bank of Asia Inc. (A Savings Bank)  
Sterling Bank Corporate Center  
8004 Ortigas Avenue  
Greenhills, 1500, San Juan  
Metro Manila

### Report on the Financial Statements

#### *Opinion*

We have audited the accompanying financial statements of Sterling Bank of Asia Inc. (A Savings Bank) (the Bank), which comprise the statements of financial position as at December 31, 2024 and 2023, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of material accounting policy information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2024 and 2023, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS) Accounting Standards.

#### *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to the 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.

#### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended December 31, 2024 but does not include the financial statements and our auditors' report thereon. The Annual Report for the year ended December 31, 2024 are expected to be made available to us after the date of this auditors' report.

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

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



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

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

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

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

*Auditors' 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 auditors' 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 PSA 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, these could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

**Report on the Supplementary Information Required under Section 174 and Appendix 55 of the Manual of Regulations for Banks by the Bangko Sentral ng Pilipinas, *Disclosure Requirements to the Audited Financial Statements***

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the years ended December 31, 2024 and 2023 required by the Bangko Sentral ng Pilipinas under Section 174 and Appendix 55 of the Manual of Regulations for Banks as disclosed in Note 26 to financial statements is presented for additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS Accounting Standards. Such supplementary information is the responsibility of the management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**REYES TACANDONG & Co.**

BELINDA B. FERNANDO

Partner

CPA Certificate No. 81207

Tax Identification No. 102-086-538-000

BOA Accreditation No. 4782/P-005; Valid until June 6, 2026

BIR Accreditation No. 08-005144-004-2022

Valid until October 16, 2025

PTR No. 10467126

Issued January 2, 2025, Makati City

March 25, 2025

Makati City, Metro Manila

**STERLING BANK OF ASIA INC. (A Savings Bank)**

**STATEMENTS OF FINANCIAL POSITION**

		December 31	
		2024	2023
	Note		
<b>ASSETS</b>			
Cash and other cash items		P591,461,645	P578,568,031
Due from Bangko Sentral ng Pilipinas		2,693,012,542	2,056,165,929
Due from other banks		2,185,035,209	1,502,080,267
Interbank loans receivable	6	–	1,348,001,167
Investment securities	7	5,368,259,593	3,716,878,965
Loans and receivables	8	44,756,456,532	34,957,441,412
Foreclosed assets:	9		
Investment properties		541,214,403	585,342,707
Assets held for sale		33,741,786	10,369,647
Other foreclosed assets		3,568,031	10,018,966
Property and equipment	10	667,672,714	636,599,636
Intangible assets	11	311,672,041	296,918,747
Net deferred tax assets	21	41,548,874	27,991,015
Other assets	12	274,608,676	264,078,757
		<b>P57,468,252,046</b>	<b>P45,990,455,246</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Interbank loans payable	6	P175,000,000	P–
Deposit liabilities	13	49,152,892,081	38,693,816,311
Manager's checks		131,325,324	121,010,179
Accrued interest, taxes and other expenses	14	181,709,442	270,922,810
Unsecured subordinated debt	15	1,300,000,000	1,300,000,000
Lease liabilities	18	280,178,502	268,473,038
Retirement liability	19	53,027,284	77,128,693
Income tax payable		5,151,338	7,006,583
Other liabilities	16	1,061,754,295	995,193,711
Total Liabilities		<b>52,341,038,266</b>	<b>41,733,551,325</b>
<b>Equity</b>			
Perpetual preferred stock	22	300,000,000	300,000,000
Common stock	22	2,920,000,000	2,370,000,000
Reserves	22	324,737,869	235,770,411
Other equity reserves		54,027,748	7,310,178
Retained earnings		1,528,448,163	1,343,823,332
Total Equity		<b>5,127,213,780</b>	<b>4,256,903,921</b>
		<b>P57,468,252,046</b>	<b>P45,990,455,246</b>

See accompanying Notes to Financial Statements.

**STERLING BANK OF ASIA INC. (A Savings Bank)**

**STATEMENTS OF INCOME**

	Note	Years Ended December 31	
		2024	2023
<b>INTEREST INCOME ON:</b>			
Loans and receivables	8	<b>₱3,357,255,050</b>	₱2,685,241,302
Investment securities	7	<b>313,223,604</b>	186,237,276
Interbank loans receivable	6	<b>104,056,341</b>	91,674,284
Due from Bangko Sentral ng Pilipinas and other banks		<b>100,395,994</b>	106,644,928
		<b>3,874,930,989</b>	3,069,797,790
<b>INTEREST EXPENSE ON DEPOSIT AND OTHER FINANCIAL LIABILITIES</b>			
	13	<b>1,847,642,538</b>	1,215,844,867
<b>NET INTEREST INCOME</b>		<b>2,027,288,451</b>	1,853,952,923
<b>OTHER INCOME (CHARGES)</b>			
Service charges, fees and commissions		<b>147,930,813</b>	160,531,049
Net trading and securities gains from investment securities	7	<b>46,122,227</b>	32,393,904
Net gains (losses) from assets sold or acquired	9	<b>12,975,274</b>	(13,294,924)
Net foreign exchange gains		<b>4,005,352</b>	1,485,855
Others - net		<b>5,018,679</b>	8,562,535
		<b>216,052,345</b>	189,678,419
<b>PROVISIONS FOR CREDIT AND IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES</b>			
	8	<b>18,116,005</b>	19,303,733
<b>OPERATING EXPENSES</b>		<b>1,867,898,453</b>	1,710,732,991
<b>INCOME BEFORE INCOME TAX</b>		<b>357,326,338</b>	313,594,618
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>			
Current	21	<b>104,201,405</b>	74,009,149
Deferred		<b>(20,467,356)</b>	(3,295,909)
		<b>83,734,049</b>	70,713,240
<b>NET INCOME</b>		<b>₱273,592,289</b>	₱242,881,378

*See accompanying Notes to Financial Statements.*

**STERLING BANK OF ASIA INC. (A Savings Bank)****STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31	
	Note	2024	2023
<b>NET INCOME</b>		<b>₱273,592,289</b>	<b>₱242,881,378</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Items to be reclassified to profit or loss:</i>			
Net unrealized gains on fair value changes of investment securities	7	<b>23,993,849</b>	17,411,936
Translation adjustment		<b>1,995,230</b>	(296,938)
<i>Item not to be reclassified to profit or loss -</i>			
Remeasurement gain (loss) on retirement liability, net of deferred tax	19	<b>20,728,491</b>	(8,697,352)
		<b>46,717,570</b>	<b>8,417,646</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>₱320,309,859</b>	<b>₱251,299,024</b>

See accompanying Notes to Financial Statements.

**STERLING BANK OF ASIA INC. (A Savings Bank)**

**STATEMENTS OF CHANGES IN EQUITY**

	Note	Years Ended December 31	
		2024	2023
<b>PERPETUAL PREFERRED STOCK</b>	22	<b>₱300,000,000</b>	₱300,000,000
<b>COMMON STOCK</b>	22		
Balance at beginning of year		<b>2,370,000,000</b>	2,170,000,000
Issuance of shares		<b>550,000,000</b>	200,000,000
Balance at end of year		<b>2,920,000,000</b>	2,370,000,000
<b>RESERVES</b>	22		
Balance at beginning of year		<b>235,770,411</b>	68,957,850
Transfer from retained earnings for:			
General loan loss provision		<b>87,004,861</b>	165,008,978
Trust business		<b>1,962,597</b>	1,803,583
Balance at end of year		<b>324,737,869</b>	235,770,411
<b>OTHER EQUITY RESERVES</b>			
<b>Cumulative Unrealized Gains (Losses) on Fair Value</b>			
<b>Changes of Investment Securities</b>	7		
Balance at beginning of year		<b>(3,391,524)</b>	(20,803,460)
Net unrealized gains		<b>23,993,849</b>	17,411,936
Balance at end of year		<b>20,602,325</b>	(3,391,524)
<b>Cumulative Remeasurement Gains (Losses) on</b>			
<b>Retirement Liability</b>	19		
Balance at beginning of year		<b>(2,867,778)</b>	5,829,574
Net remeasurement gains (losses)		<b>20,728,491</b>	(8,697,352)
Balance at end of year		<b>17,860,713</b>	(2,867,778)
<b>Cumulative Translation Adjustment</b>			
Balance at beginning of year		<b>13,569,480</b>	13,866,418
Translation adjustment		<b>1,995,230</b>	(296,938)
Balance at end of year		<b>15,564,710</b>	13,569,480
		<b>54,027,748</b>	7,310,178
<b>RETAINED EARNINGS</b>			
Balance at beginning of year		<b>1,343,823,332</b>	1,267,754,515
Net income		<b>273,592,289</b>	242,881,378
Transfer to reserves for:	22		
General loan loss provision		<b>(87,004,861)</b>	(165,008,978)
Trust business		<b>(1,962,597)</b>	(1,803,583)
Balance at end of year		<b>1,528,448,163</b>	1,343,823,332
		<b>₱5,127,213,780</b>	₱4,256,903,921

See accompanying Notes to Financial Statements.

**STERLING BANK OF ASIA INC. (A Savings Bank)**

**STATEMENTS OF CASH FLOWS**

		Years Ended December 31	
		2024	2023
		Note	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		<b>₱357,326,338</b>	₱313,594,618
Adjustments for:			
Depreciation and amortization	10	<b>181,806,175</b>	164,012,582
Retirement benefits	19	<b>23,536,580</b>	20,497,018
Provisions for credit and impairment losses on:			
Loans and receivables	8	<b>18,116,005</b>	19,303,733
Foreclosed assets	9	<b>12,806,939</b>	359,517
Net amortization of discount (premium) on investment securities	7	<b>(17,672,487)</b>	19,501,543
Interest expense on lease liabilities	18	<b>14,181,099</b>	14,478,078
Net losses (gains) from assets sold or acquired	9	<b>(12,975,274)</b>	13,294,924
Operating income before working capital changes		<b>577,125,375</b>	565,042,013
Changes in operating assets and liabilities:			
Increase in:			
Financial assets at fair value through profit or loss		<b>(918,404,833)</b>	(17,521)
Loans and receivables		<b>(9,817,131,125)</b>	(3,997,548,291)
Other assets		<b>(43,949,262)</b>	(351,820,501)
Increase (decrease) in:			
Deposit liabilities		<b>10,459,075,770</b>	5,057,417,587
Interbank loans payable		<b>175,000,000</b>	–
Accrued interest, taxes and other expenses		<b>(89,213,368)</b>	94,910,680
Manager's checks		<b>10,315,145</b>	3,835,701
Other liabilities		<b>66,560,584</b>	(174,025,658)
Net cash generated from operations		<b>419,378,286</b>	1,197,794,010
Income taxes paid		<b>(106,056,650)</b>	(67,301,615)
Retirement contributions	19	<b>(20,000,000)</b>	(10,000,000)
Net cash flows provided by operating activities		<b>293,321,636</b>	1,120,492,395
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to:			
Investment securities	7	<b>(31,316,840,000)</b>	(25,881,095,378)
Property and equipment	10	<b>(79,607,445)</b>	(72,392,513)
Computer software	11	<b>(39,519,726)</b>	(22,270,919)
Proceeds from:			
Maturity of investment securities	7	<b>30,625,530,540</b>	24,342,773,829
Sale of foreclosed assets	9	<b>26,844,350</b>	127,505,495
Sale of property and equipment	10	<b>8,636,048</b>	3,389,274
Net cash flows used in investing activities		<b>(774,956,233)</b>	(1,502,090,212)

(Forward)

		Years Ended December 31	
	Note	2024	2023
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of capital stock	22	₱550,000,000	₱200,000,000
Payments of lease liabilities	18	(85,666,631)	(86,733,450)
Net cash flows provided by financing activities		464,333,369	113,266,550
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		1,995,230	(3,966,608)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
		(15,305,998)	(272,297,875)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
Cash and other cash items		578,568,031	510,101,446
Due from Bangko Sentral ng Pilipinas		2,056,165,929	2,813,319,000
Due from other banks		1,502,080,267	1,963,318,024
Interbank loans receivable		1,348,001,167	470,374,799
		5,484,815,394	5,757,113,269
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>			
Cash and other cash items		591,461,645	578,568,031
Due from Bangko Sentral ng Pilipinas		2,693,012,542	2,056,165,929
Due from other banks		2,185,035,209	1,502,080,267
Interbank loans receivable		-	1,348,001,167
		₱5,469,509,396	₱5,484,815,394
<b>OPERATING CASH FLOWS FROM INTEREST</b>			
Interest received		₱2,999,592,034	₱2,933,106,003
Interest paid		1,742,248,649	1,165,050,167
<b>NONCASH INFORMATION</b>			
Foreclosure of assets	9	₱26,451,354	₱126,717,155
Recognition of right-of-use assets and lease liabilities	10, 18	83,190,996	99,619,083

See accompanying Notes to Financial Statements.

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## STERLING BANK OF ASIA INC. (A Savings Bank)

### NOTES TO FINANCIAL STATEMENTS AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

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#### 1. General Information

Sterling Bank of Asia Inc. (A Savings Bank) (the Bank) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP). The Bank was formerly known as Far East Savings Bank (FESB) and was originally issued with a Certificate of Incorporation by the SEC on January 20, 1998. The Bank is primarily engaged in the general business of savings and mortgage banking. The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions.

The Bank was granted authority to engage in trust operations in 2008 and to issue foreign letters of credit in 2010.

As at December 31, 2024 and 2023, the Bank operates a total of 47 branches.

In 2006, JTKC Equities, Inc. (JEI), Surewell Equities, Inc. (SEI) and Star Equities, Inc. acquired all the outstanding shares of stock of FESB from the Bank of the Philippine Islands. In 2007, the Bank changed its corporate name from FESB to Sterling Bank of Asia Inc. (A Savings Bank) as approved by the BSP and the SEC.

In 2009, the BSP approved the Bank's application to acquire 100% of the shares of stock of Centennial Savings Bank (CSB). In 2010, as approved by the BSP and the SEC, the Bank, as the surviving entity, merged with CSB.

The ultimate parent company of the Bank is JEI, through a direct equity interest of 38.28% and 38.11% as at December 31, 2024 and 2023, respectively, and an indirect equity interest of 25.40% and 25.01% as at December 31, 2024 and 2023, respectively, through Star Equities, Inc., a wholly owned subsidiary of JEI.

The registered office address of the Bank is Sterling Bank Corporate Center, 8004 Ortigas Avenue, Greenhills, 1500, San Juan, Metro Manila.

#### **Approval of the Financial Statements**

The financial statements of the Bank as at and for the years ended December 31, 2024 and 2023 have been approved and authorized for issue by the Board of Directors (BOD) on March 25, 2025, as recommended for approval by the Audit Committee on March 18, 2025.

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#### 2. Summary of Material Accounting Policy Information

##### **Basis of Preparation and Compliance**

The financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS) Accounting Standards issued by the Philippine Financial and Sustainability Reporting Standards Council and adopted by the SEC. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), and the SEC pronouncements.

### **Measurement Bases**

The financial statements have been prepared under the historical cost basis, except for:

- certain investment securities measured at fair value;
- assets held for sale that are measured at the lower of cost and fair value less cost-to-sell;
- retirement liability that is carried at the present value of defined benefit obligation less the fair value of plan assets; and
- lease liabilities recognized at the present value of the unpaid lease payments.

Historical cost is generally based on the fair value of the consideration given in exchange for an asset and the fair value of consideration received in exchange for incurring a liability. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date.

The fair value measurement is based on the presumption that these transactions take place either:

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

The principal or the most advantageous market must be accessible to the Bank. The Bank measures the fair value of an asset or liability using the assumption that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. If an asset or liability measured at fair value has both bid and ask prices, the Bank uses the price within the bid-ask price spread, which is the most representative of fair value in the circumstances.

For nonfinancial assets, the Bank measures the fair value considering a market participant's ability to generate economic benefits by using an asset in its highest and best use or by selling it to another market participant that would use it in its highest and best use.

The Bank uses market observable data as far as possible when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting year during which the change has occurred.

Information about the assumptions made in measuring fair values is included in Note 5, *Fair Value Measurement*.

#### **Functional and Presentation Currency**

The financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, the FCDU accounts and foreign currency-denominated accounts in the RBU are translated into Philippine Peso equivalent amounts, which is the functional and presentation currency of the Bank. The financial statements of RBU and FCDU are combined after eliminating inter-unit accounts.

All values are rounded to the nearest Philippine Peso unless otherwise stated.

#### **Presentation of Financial Statements**

The Bank presents its statements of financial position broadly in the order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 17, *Classification of Assets and Liabilities*.

#### **Adoption of Amendments to PFRS Accounting Standards**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amendments to PFRS Accounting Standards effective for annual periods beginning on or after January 1, 2024:

- Amendments to PFRS 16, *Leases - Lease Liability in a Sale and Leaseback* – The amendments clarify that the liability that arises from a sale and leaseback transaction, that satisfies the requirements in PFRS Accounting Standards 15, *Revenue from Contracts with Customers*, to be accounted for as a sale, is a lease liability to which PFRS 16 applies and give rise to a right-of-use (ROU) asset. For the subsequent measurement, the seller-lessee shall determine ‘lease payments’ or ‘revised lease payments’ in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying this subsequent measurement does not prevent the seller-lessee from recognizing any gain or loss relating to the partial or full termination of a lease. Any gain or loss relating to the partial or full termination of the lease does not relate to the right of use retained but to the right of use terminated.
- Amendments to PAS 1, *Presentation of Financial Statements - Noncurrent Liabilities with Covenants* – The amendments clarified that covenants to be complied with after the reporting date do not affect the classification of debt as current or noncurrent at the reporting date. Instead, the amendments require the entity to disclose information about these covenants in the notes to the financial statements.
- Amendments to PAS 7, *Statement of Cash Flows* and PFRS 7, *Financial Instruments: Disclosures - Supplier Finance Arrangements* – The amendments introduced new disclosure requirements to enable users of the financial statements assess the effects of supplier finance arrangements on the liabilities, cash flows and exposure to liquidity risk. The amendments also provide transitional relief on certain aspects, particularly on the disclosures of comparative information. Earlier application is permitted.

The adoption of the foregoing amendments to PFRS Accounting Standards did not materially affect the financial statements of the Bank. Additional disclosures were included in the financial statements, as applicable.

**New and Amendments to PFRS Accounting Standards in Issue But Not Yet Effective**

Relevant new and amendments to PFRS Accounting Standards, which are not yet effective as at December 31, 2024 and have not been applied in preparing the financial statements, are summarized below:

Effective for annual periods beginning on or after January 1, 2025 -

- Amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates - Lack of Exchangeability* – The amendments clarify when a currency is considered exchangeable into another currency and how an entity determines the exchange rate for currencies that lack exchangeability. The amendments also introduce new disclosure requirements to help users of financial statements assess the impact when a currency is not exchangeable. An entity does not apply the amendments retrospectively. Instead, an entity recognizes any effect of initially applying the amendments as an adjustment to the opening balance of retained earnings when the entity reports foreign currency transactions. When an entity uses a presentation currency other than its functional currency, it recognizes the cumulative amount of translation differences in equity. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2026:

- Amendments to PFRS 9, *Financial Instruments*, and PFRS 7, *Classification and Measurement of Financial Assets* – The amendments clarify that a financial liability is derecognized when the related obligation is discharged, cancelled, expires or otherwise qualifies for derecognition (e.g. settlement date), and introduces a policy option to derecognize financial liabilities settled through an electronic payment system before settlement date if the required conditions are met. The amendments also clarify the assessment of contractual cash flow characteristics of financial assets, the treatment of non-recourse loans and contractually linked instruments, as well as require additional disclosure requirements for financial assets and liabilities with contingent features and equity instruments classified at fair value through other comprehensive income (FVOCI). Earlier application is permitted.
- Amendments to PFRS 9 and PFRS 7 - *Contracts Referencing Nature-dependent Electricity* – The amendments on the hedge accounting requirements in PFRS 9 now permits companies to designate a variable nominal volume of forecast electricity transactions as the hedged item. The variable hedged volume is determined based on the variable volume expected to be delivered by the generation facility specified in the hedging instrument. The amendments further provide an exception for designated forecast nature-dependent electricity contracts, allowing them to qualify as hedged item with the presumption the transaction is highly probable. The amendments include additional disclosure requirements to enable users of financial statements to understand how these contracts for renewable electricity affect the amount, timing and uncertainty of the companies' future cash flows. The amendments shall be applied prospectively to new hedging relationships designated on or after the date of when the amendment is first applied. Earlier application is permitted.

- Annual Improvements to PFRS Accounting Standards Volume 11:
  - Amendments to PFRS 7 – The amendments update and remove some obsolete references related to the gain or loss on derecognition on financial assets of an entity that has a continuing involvement and to the disclosure requirements on deferred differences between fair value and transaction price. The amendments also clarify that the illustrative guidance does not necessarily illustrate all the requirements for credit risk disclosure. Earlier application is permitted.
  - Amendments to PFRS 9 - *Transaction Price and Lessee Derecognition of Lease Liabilities* – The amendments clarify that when a lessee has determined that a lease liability has been extinguished in accordance with PFRS Accounting Standards 9, the lessee must apply the derecognition criteria for a financial liability which requires recognition of a gain or loss in profit or loss. The amendments also replace the reference to ‘*transaction price as defined by PFRS 15*’ to ‘*the amount determined by applying PFRS 15*’ to remove potential confusion. Earlier application is permitted.
  - Amendments to PAS 7 - *Cost Method* – The amendments replace the term ‘cost method’ with ‘at cost’ following the deletion of the definition of ‘cost method’. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2027 -

- PFRS 18, *Presentation and Disclosure in Financial Statements* – This standard replaces PAS 1 and sets out the requirements for the presentation and disclosure of information to help ensure that the financial statements provide relevant information that faithfully represents the entity’s assets, liabilities, equity, income and expenses. The standard introduces new categories and sub-totals in the statements of comprehensive income, disclosures on management-defined performance measures, and new principles for grouping of information, which the entity needs to apply retrospectively. Earlier application is permitted.

Under prevailing circumstances, the adoption of the foregoing new and amendments to PFRS Accounting Standards is not expected to have any material effect on the financial statements of the Bank. Additional disclosures will be included in the financial statements, as applicable.

### **Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

*Date of Recognition.* The Bank recognizes a financial asset or liability in the statement of financial position when the Bank becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

*Initial Recognition and Measurement.* Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction cost.

*“Day 1” Difference.* Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and the fair value (a “Day 1” difference) in profit or loss. In cases where there is no observable data on inception, the Bank deems the transaction price as the best estimate of fair value and recognizes “Day 1” difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the “Day 1” difference.

## **Financial Assets**

*Classification.* The Bank classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets FVOCI and (c) financial assets at amortized cost. The classification of a financial asset largely depends on its contractual cash flow characteristics and the Bank’s business model for managing them.

*Financial Assets at FVPL.* Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated as FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are measured at fair value at each reporting year, with any fair value gains or losses, including foreign exchange gains or losses, recognized in profit or loss to the extent that these are not part of a designated hedging relationship. Interest income (calculated using the effective interest rate method) is recognized directly in profit or loss.

Certain investments in government securities that are held for trading are included in this category (presented under “Investment securities” account).

*Financial Assets at FVOCI.* For debt instruments that are not designated at FVPL under the fair value option, the financial assets should be measured at FVOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income (calculated using the effective interest rate method) and foreign currency gains or losses on debt instruments measured at FVOCI are recognized directly in profit or loss. After initial recognition, debt instruments are carried at fair value. Unrealized gains or losses from changes in fair values are recognized in other comprehensive income and presented in the equity section of the statement of financial position. When the financial asset is derecognized, the cumulative unrealized gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss.

Equity instruments that are not held for trading may be irrevocably designated as a financial asset to be measured at FVOCI on initial recognition. Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. After initial recognition, equity instruments are carried at fair value. Foreign currency gains or losses and unrealized gains or losses from changes in fair values are recognized in other comprehensive income and presented in the equity section of the statement of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent years.

In limited circumstances, cost may be an appropriate estimate of fair value of equity securities designated as financial asset measured at FVOCI, such as if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

Certain investments in government securities, private bonds and unquoted equity security are included in this category (presented under "Investment securities" account).

*Financial Assets at Amortized Cost.* Financial assets should be measured at amortized cost if both of the following conditions are met:

- it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

Cash and other cash items, due from BSP and other banks, interbank loans receivable, loans and receivables, certain government securities and private bonds measured at amortized cost (presented under "Investment securities" account), restricted cash, refundable deposits, and returned checks and other cash items (RCCI) (included under "Other assets" account) are classified under this category.

*Reclassification.* The Bank reclassifies its financial assets when, and only when, the Bank changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting year following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, the financial asset is reclassified at its fair value at the reclassification date, and the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Equity securities designated to be measured at FVOCI may no longer be reclassified to other category.

*Impairment.* The Bank recognizes credit and impairment losses based on expected credit loss (ECL) for all debt instruments not measured at FVPL. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate and adjusted for forward-looking estimates, as appropriate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Bank recognizes impairment loss based on either the 12-month or lifetime ECL. The 12-month ECL is the portion of ECL that results from default events on a financial instrument that are possible within 12 months after the reporting year. The Bank measures impairment loss at an amount equivalent to the 12-month ECL for financial assets that are determined to have low credit risk and those financial assets for which credit risk has not increased significantly since initial recognition. Financial instruments for which a 12-month ECL is determined are referred to as "Stage 1 financial assets."

However, when there has been a significant increase in credit risk since initial recognition, the allowance for credit and impairment losses will be based on the lifetime ECL. The lifetime ECL is the ECL that results from all possible default events over the expected life of the financial asset. A financial asset for which a lifetime ECL are determined but which are not credit-impaired are referred to as "Stage 2 financial assets".

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial asset as at the reporting year with the risk of a default occurring on the financial asset as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. The Bank also considers downgrade of credit risk rating or changes in the computed probabilities of default to determine whether significant increase in credit risk has occurred subsequent to initial recognition date. As a backstop indicator, the Bank considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due for consumer loans or seven days for commercial loans.

At each reporting date, the Bank assesses whether the financial assets at amortized cost are credit-impaired (referred to as "Stage 3 financial assets"). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. ECL for credit-impaired financial assets is based on the difference between the gross carrying amount and present value of estimated future cash flows. The Bank transfers credit exposures from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Such exposures should exhibit both the quantitative and qualitative indicators of probable collection prior to the transfer. The quantitative indicator is characterized by payments made within an observation period. The qualitative indicator pertains to the results of assessment of the borrower's financial capacity. As a general rule, full collection is probable when payments of interest and/or principal are received for at least 12 months.

Financial assets at amortized cost are written off when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

*Modification or Restructuring.* The Bank may modify the original terms and conditions of an existing loan, which may include, but not limited to, change in interest rate and terms, principal amount, maturity date and repayment schedule.

If modifications are considered substantial based on the assessment of the Bank, the loan is derecognized. Generally, a modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original asset.

On the other hand, if a loan has been renegotiated or modified without resulting in a derecognition, the Bank records a modification gain or loss, to the extent that an impairment loss has not been already recorded, based on the change in cash flows discounted at the loan's original effective interest rate.

*Derecognition.* A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

When the Bank has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Bank’s continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Bank could be required to repay.

### **Financial Liabilities**

*Classification.* The Bank classifies its financial liabilities at initial recognition under the following categories: (a) financial liabilities at amortized cost and (b) financial liabilities at FVPL.

The Bank does not have financial liabilities measured at FVPL as at December 31, 2024 and 2023.

*Financial Liabilities at Amortized Cost.* Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

Deposit liabilities, interbank loans payable, accrued interest and other expenses, manager’s checks, unsecured subordinated debt, lease liabilities, and other liabilities [excluding due to Philippine Deposit Insurance Corporation (PDIC), withholding taxes and statutory obligations] are included under this category.

*Derecognition.* A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Bank could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in profit or loss.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

*Classification of Financial Instrument between Liability and Equity.* A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Bank does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

#### **Offsetting of Financial Assets and Liabilities**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

#### **Foreclosed Assets**

Foreclosed assets are composed of investment properties, assets held for sale and other foreclosed assets.

*Investment Properties.* Foreclosed real estate properties are classified as investment properties upon (a) entry of judgment in case of judicial foreclosure; (b) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or (c) notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

The investment property acquired in settlement of loans is initially measured at fair value of the asset acquired unless the fair value of the asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the settled loan amount. Any difference between the fair value of an investment property acquired and the carrying amount of the loan upon foreclosure is recognized in profit or loss.

The Bank applies the cost model in subsequently measuring its investment properties. Land is carried at cost less any impairment in value and depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value. Cost is the fair value of the asset at acquisition date plus transaction costs, which include non-refundable capital gains tax and documentary stamp tax, incurred in connection with foreclosure.

Depreciation is computed on a straight-line basis over the estimated useful life of the depreciable asset or ten years, whichever is shorter. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

Transfers are made to investment property 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 property when, and only when, there is a change in use evidenced by commencement of owner-occupation or by commencement of development with a view to sell.

Repairs and maintenance costs relating to investment properties are normally charged to profit or loss in the period in which the costs are incurred.

An investment property is derecognized when it has either been disposed of or when it is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the derecognition of an investment property is recognized in profit or loss in the year of derecognition.

*Assets Held for Sale.* Foreclosed assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than continuing use. Assets held for sale are accounted for at the lower of cost and fair value less cost to sell. Impairment loss is recognized in profit or loss for any subsequent write-down of the asset to fair value less cost to sell. Gain on any subsequent increase in fair value less costs to sell of an asset is recognized in profit or loss to the extent of the cumulative impairment loss.

Assets held for sale that cease to be classified as such is measured at the lower of (a) carrying amount before the assets were classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the assets not been classified as held for sale, and (b) recoverable amount at the date of the subsequent decision not to sell. Any adjustment on the carrying amount of assets held for sale that cease to be classified as held for sale is recognized in profit or loss.

*Other Foreclosed Assets.* Other foreclosed assets include non-real estate properties such as chattel mortgage that are not expected to be sold within one year as at report date. Other foreclosed assets are initially measured at the fair value of the asset acquired.

Any difference between the fair value and the carrying amount of the loan upon foreclosure is recognized in profit or loss.

Subsequent to initial recognition, other foreclosed assets are carried at cost less accumulated depreciation and any impairment in value. Depreciation is computed on a straight-line basis over the estimated useful life of the asset or three years, whichever is shorter. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other foreclosed assets.

Other foreclosed assets are derecognized upon disposal or when no economic benefits are expected from its use or disposal. Any gain or loss on the derecognition of other foreclosed asset is recognized in profit or loss in the year of derecognition.

### **Property and Equipment**

Land is stated at cost less any impairment in value. Depreciable property and equipment are stated at cost less accumulated depreciation, amortization and any impairment.

The initial cost of property and equipment consists of its purchase price, including import duties, nonrefundable taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to profit or loss in the year when 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 property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

The cost of replacing a part of the property and equipment is capitalized when that cost is incurred and all the relevant asset recognition criteria are met. The carrying amount of a part of an item of property and equipment that has been replaced is derecognized.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the property and equipment are as follows:

<u>Asset Category</u>	<u>Number of Years</u>
Building and condominium units	30
ROU assets	3 to 10 or the related lease term, whichever is shorter
Furniture, fixtures and equipment	5
Leasehold rights and improvements	10 or the related lease term, whichever is shorter

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the years and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of depreciable property and equipment.

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

Fully depreciated items are retained as property and equipment until these are no longer being used in the operations.

### **Intangible Assets**

*Branch Licenses.* Branch licenses are capitalized on the basis of the costs incurred to acquire and of bringing the asset to its use in the operations. Branch licenses are not amortized and deemed to have an indefinite economic life as there is no foreseeable limit to the period over which these are expected to generate net cash inflows for the Bank.

Branch licenses are reviewed annually to determine whether events and circumstances continue to support an indefinite economic life assessment. Any change in assessment from indefinite to finite life will be accounted prospectively.

*Computer Software.* Computer software is measured on initial recognition at cost. Subsequently, computer software is measured at cost less accumulated amortization and any impairment losses. Internally-generated computer software, excluding capitalized development costs, is not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred.

Computer software is amortized using straight-line method over the estimated useful life of five years and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortization period and method used for computer software are reviewed annually. Changes in the estimated useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization on computer software is recognized in profit or loss.

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

### **Prepaid Expenses**

Prepaid expenses are expenses paid in advance and recorded as asset before these are utilized. Prepaid expenses are apportioned over the period covered by the payment and charged to appropriate accounts in profit or loss when incurred.

### **Impairment of Non-financial Assets**

Non-financial assets, except for branch licenses, are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Branch licenses are assessed for impairment annually, either individually or at the cash generating unit (CGU) level, as appropriate. The Bank assesses at the end of the reporting year whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. 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 pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the 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 asset's 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 profit or loss. After such reversal, the depreciation and amortization are adjusted in future years to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

### **Equity**

*Capital Stock.* Common stock is measured at par value per share issued. Incremental costs directly attributable to the issuance of new shares are recognized as deduction from equity, net of tax.

Perpetual preferred stock is classified as equity if it is non-redeemable, or redeemable only at the Bank's option, and any dividends thereon are discretionary. Perpetual preferred stock is classified as a liability if this is redeemable on a specific date or at the option of the stockholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

*Reserves.* Reserves represent the appropriation of retained earnings in relation to allowance for credit losses on loans receivables from customers which are less than the 1.0% general provision prescribed by the BSP for regulatory purposes. These also include portion of the Bank's income from trust operations.

*Other Equity Reserves.* Other equity reserves comprise items of income and expenses that are not recognized in profit or loss. These pertain to cumulative unrealized gains (losses) on fair value changes of investment securities, cumulative rereasurement gains (losses) on retirement liability and cumulative translation adjustment.

*Retained Earnings.* Retained earnings represent the cumulative balance of net income or loss, effects of the changes in accounting policy and other capital adjustments.

### **Revenue Recognition**

Revenue from contracts with customers is recognized when the customer obtains control of the services at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be measured reliably.

The Bank also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Bank has assessed that it acts as a principal in all of its revenue sources, except for activities where the Bank acts in a fiduciary or custodian capacity such as nominee, trustee or agent. Income from fiduciary and custodianship activities are included under "Service charges, fees and commissions" account in the statement of income.

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

*Interest Income.* Interest income is recognized in profit or loss as the interest accrues, taking into account the effective yield of the asset.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective rate, transaction costs and all other premiums or discounts.

For Stage 3 financial assets, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount, provided that the Bank determines that the collection of interest income is reasonably assured.

*Service Charges, Fees and Commissions.* Service charges and penalties, which are presented as part of "Service charges, fees and commissions" in profit or loss, are recognized upon collection or being accrued when there is reasonable degree of certainty as to its collectability. Fees and commissions arising from providing transaction services are recognized upon completion of the transaction. Fees or components of the fees that are linked to a certain performance of a service or a condition are recognized after performing the service or fulfilling the condition.

*Gains (Losses) from Assets Sold or Acquired.* Income or loss from sale of properties is recognized upon completion of the earning process and the collectability of the sales price is reasonably assured. Gain or loss on foreclosure of properties is recognized when the risks and rewards of the property have been transferred to the Bank based on the difference between the fair value of the foreclosed asset upon foreclosure and the carrying amount of the loan.

*Other Income.* Other income is recognized when the earning process is complete and the flow of economic benefit is reasonable assured.

#### **Costs and Expense Recognition**

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized upon receipt of goods, utilization of services or when the costs and expenses are incurred.

*Interest Expense.* Interest expense is recognized in profit or loss using the effective interest rate of the financial liabilities to which these relate.

*Operating Expenses.* Operating expenses constitute costs which arise in the normal business operations and are recognized when incurred.

### **Employee Benefits**

*Short-term Benefits.* Short-term employee benefits given by the Bank to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and non-monetary benefits. The Bank recognizes a liability, net of amounts already paid, and an expense for services rendered by employees during the year.

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

*Retirement Benefits.* Retirement benefit costs are actuarially determined using the projected unit credit method, which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Bank recognizes service costs, comprising of current service and past service costs, gains and losses on curtailments and non-routine settlements, and net interest expense or income in profit or loss. Net interest expense or income is calculated by applying the discount rate to the net retirement liability or asset.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Bank recognizes restructuring-related costs.

Remeasurements comprising of actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the year in which these arise. Remeasurements are not reclassified to profit or loss in subsequent years.

The retirement liability is the difference of the present value of the defined benefit obligation and the fair value of plan assets out of which the obligations are to be settled directly. The present value of the retirement liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting year.

The Bank contributes to the retirement fund based on the actuarial valuation report. The contributions to the retirement plan consist of annual normal cost and amortization of any unfunded past service liability. The Bank is not required to contribute when the fair value of plan assets exceeds the present value of retirement liability.

### **Leases**

The Bank considers whether a contract is, or contains a lease at the inception of a contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

### **The Bank as a Lessee**

At commencement date of the lease, the Bank recognizes ROU assets and corresponding lease liabilities on the statement of financial position.

*ROU Assets.* ROU assets are initially measured at cost, which comprises the initial amount of lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred, less any incentives received. ROU assets are subsequently amortized on a straight-line basis using the expected useful life or lease term, whichever is shorter. In addition, ROU assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liabilities. The Bank presents the ROU asset as part of "Property and equipment" account in the statement of financial position.

*Lease Liabilities.* Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of lease liabilities comprise the fixed payments, including in-substance fixed payments, and if applicable:

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

Lease liabilities are measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When lease liabilities are remeasured, a corresponding adjustment is made to the carrying amount of the ROU assets, or is recorded in profit or loss if the carrying amount of the ROU assets has been reduced to zero.

*Short-term Leases.* The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., lease that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

### **Income Taxes**

*Current Tax.* Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rate and the tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting year.

*Deferred Tax.* Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, and carry forward benefits of the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, excess MCIT and NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced 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. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates and tax laws that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity as other comprehensive income.

*Offsetting.* Current tax assets and current tax liabilities are offset, or deferred tax assets and deferred tax liabilities are offset if, and only if, an enforceable right exists to set off the amounts and it can be demonstrated without undue cost or effort that the Bank plans either to settle on a net basis or to realize the asset and settle the liability simultaneously.

### **Fiduciary Activities**

The Bank excludes from these financial statements the assets and income arising from fiduciary activities, together with related undertakings to return such assets to customer, where the Bank acts in a fiduciary capacity such as a nominee, trustee or agent.

### **Foreign Currency Transactions**

*RBU.* Transactions in currencies other than Philippine Peso are recorded at the rate of exchange prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the reporting date. Foreign exchange gains or losses are recognized in profit or loss in the year in which these are incurred.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

*FCDU.* As at the reporting date, the assets and liabilities of the FCDU are translated into the Bank's functional and presentation currency at the Banking Association of the Philippines (BAP) closing rate, and its income and expenses are translated at the BAP weighted average rate for the year. Exchange differences arising from translation to foreign currency are recognized as other comprehensive income under "Cumulative translation adjustment." Upon disposal of the FCDU or actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized as "Cumulative translation adjustment" in other comprehensive income is recognized in profit or loss.

#### **Related Party Relationship and Transactions**

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. This includes: (a) individuals who, by owning directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; and, (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 such individual.

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

Related party transactions consist of transfer of resources, services or obligations between the Bank and its related parties.

#### **Provisions**

Provisions, if any, are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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 year, 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 assessment and the risks specific to the obligation. Provisions are reviewed at the end of each reporting year and adjusted to reflect the current best estimate.

#### **Contingencies**

Contingent liabilities are not recognized in the financial statements. These are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

#### **Events after the Reporting Year**

Subsequent events that provide additional information about the Bank's financial position at the reporting year are reflected in the financial statements when material. Subsequent events that are non-adjusting events are disclosed in the notes to financial statements when material.

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### 3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements requires management to exercise judgment, make estimates, and use assumptions that affect amounts of assets, liabilities, income and expenses reported in the financial statements and related disclosures. The judgments, estimates and assumptions used in preparing the financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the financial statements. While management believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

#### **Judgments**

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

*Determining the Classification of Financial Assets.* Classification of financial assets depends on the results of the business model test and sole payment of principal and interest test performed by the Bank.

The Bank exercises judgment in determining the business model to be used in managing its financial instruments to achieve their business objectives. The following are the factors considered by the Bank in its business model assessment:

- Specific business objectives in holding the financial assets,
- Policies in managing the risks of the financial assets,
- Expected frequency, value and timing of sales, and
- Key performance indicators of the financial assets.

The Bank also determines whether the contractual terms of debt instruments classified and measured as financial assets at amortized cost give rise to specified dates to cash flows that are solely payments for principal and interest, with interest representing time value of money and credit risk associated with the outstanding principal amount. Any other contractual term that changes the timing or amount of cash flows does not meet the "solely payments of principal and interest" test.

*Determining the Fair Values of Financial Instruments.* Certain financial assets and liabilities are carried at fair value and whose fair values are disclosed, which requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Bank utilized different valuation methodologies. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

When the fair values of financial assets and liabilities recognized or disclosed in the financial statements cannot be derived from the active market, the fair values are determined using internal valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The fair values of the Bank's financial instruments are disclosed in Note 5.

*Determining the Functional Currency.* The Bank uses its judgment to determine the functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

- the currency that mainly influences sales price for financial instruments and services or the currency in which sales prices for its financial instruments and services are denominated and settled;
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

Based on the foregoing and the economic substance of the underlying circumstances relevant to the Bank, the functional currency of the Bank has been determined to be the Philippine Peso, which is the currency of the primary economic environment in which the Bank operates.

*Determining the Classification of Lease Arrangements and Appropriate Lease Term and Discount Rates.* The Bank, as a lessee, has existing lease agreements with related parties and third parties for its branches.

The Bank recognizes ROU assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the Bank's incremental borrowing rate, except for its short-term leases.

The Bank has exercised significant judgment in determining the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or in any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

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

The Bank elected not to recognize ROU assets and lease liabilities for short-term leases. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Significant management judgment was likewise exercised by the Bank in determining the discount rate, whether implicit rate, if readily available or incremental rate, to be used in calculating the present value of ROU assets and lease liabilities. The discount rate ranging from 3.89% to 7.72% are incremental borrowing rates based on the Bloomberg Valuation Service (BVAL) rates adjusted by credit spread of the Bank.

Reassessments are made on a continuing basis whether changes should be reflected in the amount of lease liabilities due to circumstances affecting lease payments.

The amounts recognized in the financial statements in relation to the Bank's lease agreements are disclosed in Notes 10 and 18.

*Classifying the Acquired Assets.* The Bank classifies its acquired assets as property and equipment if these are properties expected to be used in operations, investment properties if these assets are properties held for currently undetermined future use and is regarded as held for capital appreciation or for sale but the disposal is expected not to materialize within one year, or assets held for sale if the Bank expects that these assets will be recovered through sale rather than use or the Bank remains committed to sell the assets through active marketing and disposal program if the sale will not materialize within one year. Foreclosed assets, other than real estate properties, that Bank expects to sell for a period longer than one year are classified as other foreclosed assets.

*Evaluating Contingencies.* The Bank is currently involved in some legal proceedings mainly pertaining to collectability of its loans and receivables. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsels handling the Bank's defense in these matters and is based on an analysis of potential results. Based on the opinion of its legal counsels, the Bank is in a good position to secure a favorable judgment in most of these cases. Management therefore believes that the ultimate outcome of these proceedings will not have a material adverse effect on the Bank's financial position and performance (see Note 25).

#### **Estimates and Assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Estimating the Credit and Impairment Losses on Financial Assets.* Credit and impairment losses on financial assets are based on ECL. In assessing the ECL, the Bank uses historical credit loss experience adjusted for forward-looking factors, as appropriate.

The Bank measures impairment loss based on the 12-month ECL for the following:

- Receivables from customers and other financial instruments on which credit risk has not increased significantly since initial recognition.
- Investment securities and other debt instruments (excluding debt instruments measured at FVPL) that are determined to have credit risk rating equivalent to "investment grade", and thus, have a low credit risk at the reporting date.

The Bank measures impairment loss based on the lifetime ECL for receivables from customers for which credit risk has increased significantly since initial recognition, or when:

- The account is considered as loans especially mentioned based on the BSP guidelines.
- The account has a missed payment for more than 30 days for consumer loans or seven days for commercial loans.
- The account is downgraded by two risk ratings based on the Bank's Internal Credit Risk Ratings (ICRR).

In estimating impairment loss of receivables from customers, the Bank estimates the amounts and timing of future cash flows, collateral values and the assessment of a significant increase in credit risk. Below are the components considered in the calculation of ECL.

- Net flow and default rates of receivables from customers based on historical experience of the Bank.
- ICRR and certain qualitative factors in determining whether there has been a significant increase in credit risk to determine when to measure lifetime credit losses.
- Latest fair values of collaterals and historical recovery rates of foreclosed assets for loss given default calculations.
- Segmentation of financial assets for collective assessment of ECL.
- Use of regression analysis in determining macroeconomic factors that affect non-performing status of loan accounts.

Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or the borrower.
- A breach of contract, such as a default or past due event.
- The lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower concessions that the lenders would not otherwise consider.
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.
- The disappearance of an active market for that financial asset because of financial difficulties.
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired.

#### Loans and Receivables

Provision for credit and impairment losses on loans and receivables is disclosed in Note 8.

The carrying amount of loans and receivables, and the related allowance for credit and impairment losses, are disclosed Note 8.

#### Investment Securities - Debt Instruments not Measured at FVPL

Impairment loss was recognized on the Bank's investment securities amounting to ₱257,978 and ₱173,978 in 2024 and 2023, respectively. The carrying amount of financial assets at FVOCI (excluding unquoted equity security) and investment securities at amortized cost are disclosed in Note 7.

Other Financial Assets at Amortized Cost

No impairment loss was recognized on the Bank's cash and other cash items, due from BSP and other banks, interbank loans and receivables, refundable deposits, restricted cash and RCOI because these are placements or receivables with reputable counterparties that possess good ratings. The details and carrying amount of other financial assets at amortized cost are disclosed in Note 4.

*Assessing the Impairment of Branch Licenses.* Branch license is determined to be an intangible asset with an indefinite economic life because there is no foreseeable limit to the period on which the branch license is expected to generate net cash inflows for the Bank. The branch license is required to be assessed for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired.

The branches have been identified as the CGU for purposes of impairment assessment of branch licenses.

When the branch license's fair value less cost of disposal is lower than its carrying amount, the recoverable amount is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the projection for the next five years and do not include restructuring activities that the Bank is not yet committed to or significant future investments that will enhance the asset base of the branch being tested. The recoverable amount is most sensitive to the discount rate as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

No impairment losses were recognized in 2024 and 2023. The carrying amount of the branch licenses is disclosed in Note 11.

*Assessing the Impairment of Significant Nonfinancial Assets.* The Bank assesses impairment of foreclosed assets, property and equipment and computer software whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable.

The relevant factors that the Bank considers whether to perform an asset impairment review include, among others, the following:

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

There is no indication that property and equipment and computer software may be impaired. Accordingly, no impairment losses were recognized in 2024 and 2023.

Provision for impairment loss and the related allowance for impairment losses on foreclosed assets are disclosed in Note 9.

The carrying amounts of foreclosed assets, property and equipment and computer software are disclosed in Notes 9, 10 and 11.

*Estimating the Useful Lives of Foreclosed Assets, Property and Equipment and Computer Software.* The Bank estimates the useful lives of depreciable foreclosed assets and property and equipment, and computer software based on the year over which the assets are expected to be available for use. The estimated useful lives are reviewed annually and changed 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 foreclosed assets, property and equipment and computer software. However, it is possible that future results of operations could be materially affected by changes in factors mentioned in the foregoing. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the foregoing would increase the recorded expenses and decrease assets.

There was no change in the estimated useful lives of the depreciable foreclosed assets, property and equipment, and computer software in 2024 and 2023.

The carrying amounts of the depreciable assets of the Bank are disclosed in Notes 9, 10 and 11.

*Determining the Retirement Liability.* The determination of the obligation and cost of retirement benefits is dependent on selection of certain assumptions determined by management and used by the actuary in calculating such amounts. These assumptions include, among others, discount rate and salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligations in such future years.

In determining the appropriate discount rate, management considers the interest rate of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Further details about the assumptions used are provided in Note 19 to financial statements.

The amount of recognized retirement benefits and the carrying amount of the retirement liability are disclosed in Note 19.

*Assessing the Realizability of Deferred Tax Assets.* The Bank reviews the carrying amount of deferred tax assets at each reporting year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting year and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

As at December 31, 2024 and 2023, deferred tax assets on certain temporary differences were not recognized. Management assessed that it is not probable that sufficient future taxable profit will be available to allow the deferred tax assets to be utilized.

The details of recognized and unrecognized deferred tax assets are disclosed in Note 21.

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#### 4. Financial Risk Management Objectives and Policies

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

- Credit risk
- Liquidity risk
- Market and interest rate risk

##### **Risk Governance**

The Bank's BOD has overall responsibility for the oversight of the Bank's risk management process. The established risk governance framework together with the supporting structure provides for the mechanism to ensure oversight and accountability for risk at various levels in the organization. Various board and management committees, which are responsible for developing, managing and monitoring specific risks that the Bank is exposed to, are as follows.

Board Level:

1. Risk Management Committee (RMC)
2. Audit Committee (AC)
3. Corporate Governance Committee (CorGov)
4. Related Party Transaction (RPT)
5. Loan Committee (LOANCOM)
6. Bids & Awards Committee (BAC)
7. IT Committee (ITCOM)
8. Trust Committee (TRUSTCOM)
9. Executive Committee (EXCOM)

Management Level:

1. Senior Management Committee (SMCOM)
2. Credit Committee (CRECOM)
3. Fraud Committee (FRAUDCOM)
4. Anti-Money Laundering Committee (AMLCOM)
5. Data Privacy Committee (DPC)
6. Asset-Liability Committee (ALCO)
7. Senior Management Oversight Committee for Outsourced Services (SMOC)

RMC is responsible for developing the Bank's risk strategy and the supporting risk management policies, ensuring the soundness of risk management practices in relation to the risks faced by the Bank.

RMC is supported by the Risk Management Group (RMG) in the exercise of its risk oversight functions. RMG, which is independent of the business units and is directly reporting to the RMC, performs daily market risk analyses to measure market risk exposures and ensure compliance with the Bank's policies, procedures and limit structures, and makes recommendations based on such analyses. RMG, likewise, monitors credit risk exposures and portfolio movements. They also take the lead in the development of the Bank's credit acceptance policies, risk classification and profiling through the administration of the internal credit rating system and the determination of appropriate levels of allowances for credit losses.

AC is responsible for monitoring the Bank's compliance with the risk management policies and procedures, and for reviewing the adequacy of risk management framework in relation to the risks being faced by the Bank. AC is assisted by the Internal Audit (IA) Department. IA undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

CorGov assists the board in fulfilling its corporate governance responsibilities and oversees periodic assessment of board performance, as well as the various Board Committees and Executive Management.

RPT is responsible for screening related party accounts for BOD approval.

LOANCOM is a Board Committee that acts as the highest approving body for loan and other credit related matters, except for directors, officers, stockholders and related interest (DOSRI) loans. It ensures that the credit approval or endorsement of credit facilities is based on a diligent, sound and prudent evaluation of the risks involved and is aligned with the Bank's strategic objectives in terms of asset quality.

BAC oversees the Bank's procurement processes and the implementation of procurement contracts as part of the Bank's operational risk management, while also ensuring transparency and good governance in the process.

ITCOM oversees the development of the Bank's information Technology System and Infrastructure. It ensures that systems are embedded with multi-layered controls in order to protect bank information and technical infrastructure.

TRUSTCOM is responsible for overseeing the investment activities of the Bank's Trust unit.

EXCOM assists the board in the general supervision, administration and management of the Bank's affairs, and is actively engaged in overseeing the development and execution of the Bank's business strategies.

SMCOM exercises general supervision, administration and management of the bank's operations, and as such oversees the operational and strategic risk management.

CRECOM is the management level committee that evaluates and screens all credit proposals that requires the approval of the President, LOANCOM or the BOD, and likewise monitors credit underwriting activities performed at management level. It ensures that credit risk is within the BOD established risk tolerance levels and that proposals comply with the credit underwriting standards as established in the Bank's policies and procedures.

FRAUDCOM addresses the increasing threat landscape for fraud incidents committed against the Bank and its clients. The primary responsibility of the FRAUDCOM is to determine actions to be taken when a fraud incident is reported and recommend changes in the processes, procedures and policies of the Bank whenever applicable.

AMLCOM was established assists the BOD in fulfilling its oversight responsibility over AML activities to ensure that the Bank complies with the provisions of the Anti-Money Laundering Act (AMLA), as amended, its Implementing Rules and Regulations (IRR), and BSP regulations.

DPC, headed by the Data Protection Officer (DPO), oversees the implementation of the Data Privacy Act (DPA). The Bank adopted a committee approach to DPA compliance with Deputy Data Protection Officers representing the different areas namely, Compliance, Risk, Legal, Information Technology and Security

ALCO is responsible for ensuring that the Bank maintains adequate liquidity, sufficient capital and the appropriate funding to meet business requirements and comply with regulatory requisites. It is also responsible for building a stable funding structure by managing the Bank's asset and liability profile. Moreover, it manages the Bank's financial position and ensures that the Bank's liquidity, capital and funding structure support the business strategies. It likewise establishes the Bank's asset-liability pricing policies.

SMOC is tasked to oversee the outsourcing arrangements with third party business partners.

### **Credit Risk**

Credit risk is the risk of financial loss to the Bank when a customer or counterparty fails to meet its contractual obligations. The Bank's credit risk exposure arises largely from the lending, trade finance and investment activities. The Bank manages credit risk through an established risk control framework that provides for policies and guidelines to the business units together with a system of limits reflective of the Bank's risk tolerance and capacity. A monitoring mechanism is also in place to ensure that exposures to individual counterparties, related accounts, countries and industries are within BOD established and approved limits and that any credit concentration is within acceptable levels.

While the Credit Risk Control Department of RMG (CRC-RMG) provides for an independent risk monitoring and control of credit exposures, each business unit is responsible for the quality and performance of its credit portfolio. As the first line of defense, business units are responsible for monitoring and controlling the credit risks in its portfolio. The CRC-RMG, meanwhile, provides an independent evaluation of the Bank's credit risk exposure through review of loan proposals and credit processes, borrower risk assessments and credit administration. This is complemented by regular audits of business units and credit processes undertaken by IA that provide for assurance and feedback mechanisms to determine sufficiency and effectiveness of established risk controls.

The Bank extends various types of loans, several on clean/unsecured basis, and others against hard collaterals and other form of securities. Personal and salary loans are generally granted on a clean/unsecured basis. Other consumer lending products are largely asset-backed financing with auto loans secured by chattel mortgage on the vehicles and real estate loans secured by first real estate mortgage on residential or commercial properties. The Bank's commercial/small-medium enterprise loans cover a mix of clean/unsecured (which includes those under personal guarantees) as well as secured credit facilities (i.e., those supported by real estate and chattel mortgages, guarantees and other registered securities). Estimates of fair value are based on the value of the collateral assessed at the time of the borrowing.

All loan applications, covering the different types of loans, undergo strict credit evaluation in accordance with established risk acceptance criteria. The essential elements that the Bank considers for all its credit dealings and account relationships are: favorable credit checking; good credit standing and track record with other counterparties, banks and trade partners alike; financial strength and cash generating capabilities (fund sourcing), which translate into determination of paying capacity that establishes repayment expectations; and acceptable collateral/security, if applicable. Furthermore, credit underwriting is performed within a framework of delegated credit authorities that take into account facility risks and magnitudes of potential exposures.

### Management of Credit Risk

The BOD, through RMC and LOANCOM, is assisted in the monitoring and management of credit risk by the CRC-RMG, which continuously implements its risk control programs, in line with its oversight function over the Bank's lending activities. CRC-RMG is principally tasked with identifying, monitoring, reporting and controlling the Bank's credit risk. The specific functions of CRC-RMG are as follows:

- Takes charge of administering the Bank's lending policies, ensuring compliance by those concerned with continuous issuance of updates on policies and process guidelines for bank-wide implementation and compliance.
- Facilitates the activities of the CRECOM, whose main objective is to evaluate and screen loan proposals requiring approvals beyond line management levels.
- Classifies borrowing accounts according to several levels of risk, based on the ICRR system and loan portfolio assessments, to regularly determine loan impairments for the purpose of determining the appropriate loan loss reserves.
- Conducts credit stress testing and regularly evaluates and monitors the quality of the Bank's loan portfolio via the Portfolio Profile Report, as part of the scheme of controlling large concentration and Bank exposures.

### Maximum Exposure to Credit Risk after Collateral Held or Other Credit Enhancements

The Bank's maximum exposure to the credit risk is equal to the carrying amount of the financial assets, except for the following loans and receivables:

	2024			
	Carrying Amount	Fair Value of Collaterals or Credit Enhancements	Financial Effects of Collaterals or Credit Enhancements	Maximum Exposure to Credit Risk
Loans and receivables:				
Receivables from customers:				
Corporate loans <sup>1</sup>	P32,340,756,272	P15,919,335,111	P9,551,601,067	P22,671,087,093
Consumer loans <sup>2</sup>	11,401,531,561	14,159,929,263	11,811,391,703	484,249,174
	43,742,287,833	30,079,264,374	21,362,992,770	23,155,336,267
Sales contracts receivable <sup>2</sup>	27,542,541	55,730,120	27,542,541	-
	P43,769,830,374	P30,134,994,494	P21,390,535,311	P23,155,336,267

<sup>1</sup>Net of allowance for credit and impairment losses and unearned discounts and capitalized interest.

<sup>2</sup>Net of allowance for credit and impairment losses.

2023				
	Carrying Amount	Fair Value of Collaterals or Credit Enhancements	Financial Effects of Collaterals or Credit Enhancements	Maximum Exposure to Credit Risk
Loans and receivables:				
Receivables from customers:				
Corporate loans <sup>1</sup>	₱25,443,597,269	₱10,593,001,440	₱6,355,800,864	₱19,087,796,405
Consumer loans <sup>2</sup>	8,910,774,695	10,280,073,501	8,627,199,244	283,575,451
	34,354,371,964	20,873,074,941	14,983,000,108	19,371,371,856
Sales contracts receivable <sup>2</sup>	23,647,498	43,135,202	23,647,498	–
	₱34,378,019,462	₱20,916,210,143	₱15,006,647,606	₱19,371,371,856

<sup>1</sup>Net of allowance for credit and impairment losses and unearned discounts and capitalized interest.

<sup>2</sup>Net of allowance for credit and impairment losses.

### Concentration of Credit Risk Exposure of Financial Assets

The Bank monitors concentration of credit risk by industry. The distribution of the Bank's financial assets and off-balance sheet items by industry sector, before taking into account collaterals held or other credit enhancements (maximum exposure) are as follows:

2024					
	Loans and Receivables <sup>1</sup>	Loans and Advances to Banks <sup>2</sup>	Investment Securities <sup>3</sup>	Others <sup>4</sup>	Total
Real estate	₱13,700,664,176	₱–	₱–	₱29,834,134	₱13,730,498,310
Other community, social and personal activities	10,702,305,117	–	–	2,267,055	10,704,572,172
Philippine government	–	2,693,012,542	5,215,084,277	–	7,908,096,819
Wholesale and retail trade	7,390,910,919	–	–	31,138,610	7,422,049,529
Financial intermediaries	3,851,563,392	2,185,035,209	137,101,853	125,239,320	6,298,939,774
Manufacturing	4,507,044,369	–	–	45,130,000	4,552,174,369
Transportation, storage and communication	2,326,005,704	–	–	2,342,723	2,328,348,427
Construction	1,037,064,818	–	–	–	1,037,064,818
Hotel and restaurant	878,816,189	–	–	–	878,816,189
Mining and quarrying	173,434,313	–	–	–	173,434,313
Agricultural, hunting and forestry	33,316,470	–	–	–	33,316,470
Electricity, gas and water supply	1,499,598	–	–	99,913	1,599,511
	44,602,625,065	4,878,047,751	5,352,186,130	236,051,755	55,068,910,701
Allowance for credit and impairment losses	(848,398,690)	–	–	–	(848,398,690)
	₱43,754,226,375	₱4,878,047,751	₱5,352,186,130	₱236,051,755	₱54,220,512,011

<sup>1</sup>Comprised of receivables from customers, gross of unearned discounts and capitalized interests.

<sup>2</sup>Comprised of due from BSP and other banks.

<sup>3</sup>Comprised of financial assets at FVPL, FVOCI (excluding unquoted equity security) and investment securities at amortized cost.

<sup>4</sup>Comprised of restricted cash, RCOCI, refundable deposits and contingencies relating to outstanding guarantees and domestic letters of credit.

2023					
	Loans and Receivables <sup>1</sup>	Loans and Advances to Banks <sup>2</sup>	Investment Securities <sup>3</sup>	Others <sup>4</sup>	Total
Real estate	₱10,779,446,447	₱–	₱–	₱29,246,619	₱10,808,693,066
Other community, social and personal activities	7,534,325,060	–	–	16,626,545	7,550,951,605
Wholesale and retail trade	6,479,520,689	–	–	20,138,352	6,499,659,041
Philippine government	–	2,056,165,929	3,638,602,519	–	5,694,768,448
Financial intermediaries	2,643,145,643	2,850,081,434	62,202,983	124,768,500	5,680,198,560
Manufacturing	4,045,034,722	–	–	–	4,045,034,722
Transportation, storage and communication	1,727,601,767	–	–	3,384,250	1,730,986,017
Construction	931,312,679	–	–	–	931,312,679
Hotel and restaurant	835,490,338	–	–	–	835,490,338
Mining and quarrying	153,739,077	–	–	–	153,739,077
Agricultural, hunting and forestry	2,867,966	–	–	–	2,867,966
Electricity, gas and water supply	2,004,922	–	–	414,204	2,419,126
	35,134,489,310	4,906,247,363	3,700,805,502	194,578,470	43,936,120,645
Allowance for credit and impairment losses	(886,749,774)	–	–	–	(886,749,774)
	₱34,247,739,536	₱4,906,247,363	₱3,700,805,502	₱194,578,470	₱43,049,370,871

<sup>1</sup>Comprised of receivables from customers, gross of unearned discounts and capitalized interests.

<sup>2</sup>Comprised of due from BSP, due from other banks, and interbank loans receivable.

<sup>3</sup>Comprised of financial assets at FVPL, FVOCI (excluding unquoted equity security) and investment securities at amortized cost.

<sup>4</sup>Comprised of restricted cash, RCOCI, refundable deposits and contingencies relating to outstanding guarantees and domestic letters of credit.

The Bank regularly assesses impairment losses on its financial assets (except those held for trading) based on historical loss experience and adjusted for appropriate forward-looking estimates. The Bank addresses impairment assessment in two areas: individual or specific assessment and collective assessment.

*Individual or Specific Assessment.* The Bank determines the credit and impairment loss appropriate for each individually significant loan or receivable on an individual account basis. Factors considered in determining the appropriate amounts of impairment loss include an account's age, payment and collection history, short and medium-term prospects in the industry, timing of expected cash flows, realizable value of collateral and forward-looking factors such as inflation and interest rates, and consumer price index.

The Bank establishes criteria for specific loan impairment testing and uses the discounted cash flow method to compute for impairment loss.

*Collective Assessment.* Collective assessment for loan impairment losses are performed on loans and receivables that are not individually significant. Generally, the Bank applies the probability of loss method in determining the collective impairment loss, where such probability is derived from the product of default rate, and loss rate and adjusted using forward-looking factors such as interest rates, and consumer price index.

*Significant Increase in Credit Risk.* When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. A significant increase in credit risk can be measured by comparing the probability of default of the borrower from the initial recognition and the result of the current probability of default.

Other indications may include, among others, indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in principal and/or interest payments, probability that the borrower will enter bankruptcy or other financial reorganization/restructuring, and other observable data indicating measurable decrease in the estimated future cash flows, such as changes in business or economic conditions that correlate with defaults.

*Definition of Default.* The Bank considers default to have occurred when: (a) the obligor is past due for more than 90 days on any material credit obligation to the Bank; or (b) the obligor is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing collateral, as applicable. The Bank no longer considers an instrument to be in default when it no longer meets any of the default criteria and has exhibited satisfactory and acceptable track record for six consecutive payment periods, subject to applicable rules and regulations of the BSP.

### Credit Quality per Class of Financial Assets

The Bank has developed and continually reviews and calibrates its internal risk rating system for large exposures aimed at uniformly assessing its credit portfolio in terms of risk profile.

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure. Credit risk arising from financial assets at FVPL is managed independently, but reported as a component of market risk exposure.

The following table provides the analysis of credit quality of the of the Bank's financial assets (gross of allowance for credit and impairment losses) classified as Stage 1, 2 or 3 as at December 31, 2024 and 2023.

<i>Amounts in Thousands</i>	2024			Total
	Stage 1	Stage 2	Stage 3	
<b>Financial Assets at FVOCI</b>				
Government securities				
High grade	<b>₱4,208,990</b>	<b>₱-</b>	<b>₱-</b>	<b>₱4,208,990</b>
Private bonds				
High grade	<b>67,474</b>	<b>-</b>	<b>-</b>	<b>67,474</b>
<b>Financial Assets at Amortized Cost</b>				
Due from BSP				
High grade	<b>2,693,013</b>	<b>-</b>	<b>-</b>	<b>2,693,013</b>
Due from other banks				
High grade	<b>2,185,035</b>	<b>-</b>	<b>-</b>	<b>2,185,035</b>
Government securities				
High grade	<b>87,575</b>	<b>-</b>	<b>-</b>	<b>87,575</b>
Private bonds				
High grade	<b>69,628</b>	<b>-</b>	<b>-</b>	<b>69,628</b>
Consumer loans				
High grade	<b>10,765,948</b>	<b>-</b>	<b>-</b>	<b>10,765,948</b>
Standard grade	<b>3,772</b>	<b>95,783</b>	<b>-</b>	<b>99,555</b>
Past due but not individually impaired	<b>-</b>	<b>98,945</b>	<b>678,103</b>	<b>777,048</b>
Individually impaired	<b>-</b>	<b>-</b>	<b>168,145</b>	<b>168,145</b>
Corporate loans				
High grade	<b>9,507,720</b>	<b>-</b>	<b>-</b>	<b>9,507,720</b>
Standard grade	<b>20,591,828</b>	<b>846,836</b>	<b>-</b>	<b>21,438,664</b>
Individually impaired	<b>-</b>	<b>-</b>	<b>1,835,565</b>	<b>1,835,565</b>
Others				
Individually impaired	<b>-</b>	<b>-</b>	<b>9,980</b>	<b>9,980</b>
Accrued interest income				
High grade	<b>331,856</b>	<b>-</b>	<b>-</b>	<b>331,856</b>
Standard grade	<b>451,397</b>	<b>715</b>	<b>-</b>	<b>452,112</b>
Past due but not individually impaired	<b>-</b>	<b>1,366</b>	<b>26,131</b>	<b>27,497</b>
Individually impaired	<b>-</b>	<b>-</b>	<b>63,874</b>	<b>63,874</b>
Accounts receivable				
High grade	<b>101,308</b>	<b>-</b>	<b>-</b>	<b>101,308</b>
Sales contracts receivables				
High grade	<b>21,392</b>	<b>-</b>	<b>-</b>	<b>21,392</b>
Standard grade	<b>-</b>	<b>269</b>	<b>-</b>	<b>269</b>
Individually impaired	<b>-</b>	<b>-</b>	<b>9,092</b>	<b>9,092</b>
Other assets*				
High grade	<b>155,578</b>	<b>-</b>	<b>-</b>	<b>155,578</b>
	<b>₱51,242,514</b>	<b>₱1,043,914</b>	<b>₱2,790,890</b>	<b>₱55,077,318</b>

\*Includes restricted cash, refundable deposits and RCOCI.

<i>Amounts in Thousands</i>	2023			Total
	Stage 1	Stage 2	Stage 3	
<b>Financial Assets at FVOCI</b>				
Government securities				
High grade	₱3,495,537	₱–	₱–	₱3,495,537
Private bonds				
High grade	62,203	–	–	62,203
<b>Financial Assets at Amortized Cost</b>				
Due from BSP				
High grade	2,056,166	–	–	2,056,166
Due from other banks				
High grade	1,502,080	–	–	1,502,080
Government securities				
High grade	142,951	–	–	142,951
Interbank loans receivable				
High grade	1,348,001	–	–	1,348,001
Consumer loans				
High grade	8,240,396	–	–	8,240,396
Standard grade	5,590	109,927	–	115,517
Past due but not individually impaired	–	86,418	747,322	833,740
Individually impaired	–	–	141,066	141,066
Corporate loans				
High grade	4,956,684	–	–	4,956,684
Standard grade	18,188,012	1,055,545	–	19,243,557
Individually impaired	–	–	1,575,136	1,575,136
Others				
High grade	18,413	–	–	18,413
Individually impaired	–	–	9,980	9,980
Accrued interest income				
High grade	272,109	–	–	272,109
Standard grade	223,575	1,566	–	225,141
Past due but not individually impaired	–	2,588	37,427	40,015
Individually impaired	–	–	99,494	99,494
Accounts receivable				
High grade	50,424	–	–	50,424
Sales contracts receivables				
High grade	14,246	–	–	14,246
Individually impaired	–	–	11,505	11,505
Other assets*				
High grade	155,595	–	–	155,595
	<b>₱40,731,982</b>	<b>₱1,256,044</b>	<b>₱2,621,930</b>	<b>₱44,609,956</b>

\*Includes restricted cash, refundable deposits and RCOCI.

The Bank classifies its neither past due nor impaired financial assets subject to credit risk into the following credit grades:

- High Grade – This pertains to accounts with very low probability of default because of the borrower’s/counterparty’s established ability to tap its liquid resources to fully service its obligations as they become due. The borrower/counterparty has no history of default and uses leverage sparingly.
- Standard Grade – This pertains to accounts with an acceptable probability of default. Nevertheless, the borrower/counterparty has a strong debt service record and has demonstrated the ability to readily service its debts. Collateral cover, if applicable, should be adequate.
- Substandard Grade – Risk of default is higher than normal. The borrower/counterparty is expected to be able to service its debt under normal economic and business conditions. Any prolonged economic or business downturn would however ostensibly create liquidity issues for the borrower/counterparty. The borrower/counterparty may have a history of default but have regularized its debt service performance as at reporting year.

Past due but not impaired pertains to items where contractual payments are past due but the Bank believes that impairment is not appropriate based on the probability of collection of amounts owed to the Bank. Impaired pertains to receivables for which the Bank determines that it is probable that it will not be able to collect all principal and interest due based on the contractual terms and agreements.

The credit quality of investment securities is generally monitored through the external ratings of eligible external credit rating institutions.

Presented below is the mapping of the credit risk rating from external rating agencies with the Bank's internal risk rating for investment securities:

A. Moody's Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	Aaa	Aa	A	Baa	Prime
Standard Grade	Ba	B			Not Prime
Substandard Grade	Caa	Ca			
Impaired	C				

B. Standard & Poors (S&P) Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	AAA	AA	A	BBB	A
Standard Grade	BB	B			B
Substandard Grade	CCC	CC	C		C
Impaired	D				D

C. Fitch Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	AAA	AA	A	BBB	A
Standard Grade	BB	B			B
Substandard Grade	CCC				C
Impaired	DDD	DD	D		D

D. Philratings

Credit Quality	Rating				
	Long-term				Short-term
High Grade	Philippine Rating Service (PRS) Aaa	PRS Aa	PRS A	PRS Baa	PRS 1
					PRS 2
					PRS 3
Standard Grade	PRS Ba	PRS B			PRS 4
Substandard Grade	PRS Caa	PRS Ca			PRS 5
Impaired	PRS C				PRS 6

For debt securities not rated by any rating agency, the Bank performs the credit rating review for the issuers of the debt securities based on quantitative and qualitative analyses, the data of which are provided by the Treasury/Trust Group.

For loans, the credit quality is generally monitored using the Bank's internal rating system. It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates management to focus on major potential risk and the comparison of credit exposures across all lines of business, demographics and products. The rating system has two parts, namely: the borrower's risk rating and the facility risk rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information to provide the main inputs for the measurement of credit risk.

The Bank uses ICRR to classify the credit quality of its receivables portfolio. This is being upgraded, as needed, to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment.

Descriptions of the loan grades used by the Bank for receivables from customers are as follows:

<b>Risk Rating</b>	<b>Classification</b>	<b>Credit Quality</b>
1	Excellent	High Grade
2	Strong	High Grade
3	Good	High Grade
4	Satisfactory	Standard Grade
5	Acceptable	Standard Grade
6	Weak	Standard Grade
7	Poor	Substandard Grade
8	Substandard	Past Due but Not Impaired
9	Doubtful	Impaired
10	Loss	Impaired

*Risk Rating 1 – Excellent.* The borrower's ability to meet its financial commitments is extremely strong and there is a very low probability that it will default on payments due in the coming year. The borrower has a high degree of stability, substance and diversity.

A borrower in this category has access to substantial amounts of funds through the public capital market at any time. It has a strong debt service capacity and has conservative balance sheet leverage (the industry in which the borrower operates). The track record in profit terms is very good.

The borrower is of the highest quality, operating reliably under virtually any and all economic conditions.

*Risk Rating 2 – Strong.* The borrower's ability to meet its financial commitments is very strong and there is a low probability that it will default on payments due in the coming year. The borrower normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrowers in this category have good access to public capital market to raise funds.

Borrower has a strong market and financial position with a history of successful performance. The overall debt service capacity as measured by cash flow to total debt service is very strong; the critical balance sheet ratios (vis-à-vis applicable industry) are conservative.

These borrowers herein categorized are described as quality corporations or enterprises, which are adequately capitalized and operating profitably.

*Risk Rating 3 – Good.* The borrower's ability to meet its financial commitments is strong. It may be described as a big or small corporation whose access to public capital market or to alternative financial market is easy, may be limited to periods of favorable economic and/or market conditions.

A borrower in this category usually exhibits characteristics of some degree of stability and substance and the probability of default is still quite low. However, it may still be susceptible to the negative effects of cyclical business changes.

Typical traits include a combination of comfortable asset protection and an acceptable balance sheet structure (vis-à-vis that industry). The debt service capacity as measured by cash flow analysis is strong.

*Risk Rating 4 – Satisfactory.* The borrower has adequate capacity to meet its financial commitments. Borrower operates in an environment where clear risk elements exist and the probability of default is somewhat greater. This probability is reflected in volatility of earnings and overall performance. A borrower in this category normally has limited access to public financial market. It should be able to withstand normal business cycles, but any prolonged unfavorable economic climate may create gradual deterioration in its financial health.

Typical for this kind of borrower is the combination of reasonably sound asset and cash flow protection. The debt service capacity as measured by cash flow is deemed adequate. The borrower has reported profit for the past fiscal year and is expected to report a profit in the current year.

*Risk Rating 5 – Acceptable.* The borrower is less vulnerable but faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to its inadequate capacity to meet its financial commitments.

This category represents borrowers who may still be able to withstand normal business cycles. However, any prolonged unfavorable economic and/or market condition would create an immediate deterioration beyond acceptable level.

This category will apply where the risk is still acceptable for the following reasons:

- There is sufficient cash flow either historically or expected for the future, in spite of an economic downturn combined with asset protection; or
- There is a new business or project finance transaction.

*Risk Rating 6 – Weak.* The borrower is more vulnerable but currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the borrower's capacity or willingness to meet its financial requirements.

This category represents the type of borrower for which unfavorable industry or Bank-specific risk factors represent a concern. Operating performance and financial strength may be marginal and it is uncertain whether the borrower can attract alternative sources of financing. Typically, the borrower will find it very hard to cope with any significant economic downturn and a default in such a case is more than a possibility.

Generally, a borrower in this category incurs net losses for one or more years. Normally, there is an expectation that conditions will improve and the rating may be upgraded. Any deterioration, however, will almost certainly result in an automatic downgrade.

In summary, this category includes those borrowers where the credit exposure is not at risk of loss at the moment, but wherein performance has weakened, and unless present trends are reversed, could lead to losses.

*Risk Rating 7 – Poor.* The borrower is currently vulnerable and is dependent on favorable business, financial and economic conditions to meet its financial obligations.

A borrower in this category is characterized by some probability of default, manifested by some or all of the following:

- Evidence of weakness in the borrower's financial condition or creditworthiness.
- Unacceptable risk generated by potential or emerging weaknesses as far as asset protection and/or cash flow is concerned. Concerns center on the potential for a continuation of unfavorable economic, market, or borrower specific conditions or trends, which may affect future debt service capacity.
- Indications that the borrower's ability or willingness to service debt are in doubt.
- Necessity or strong likelihood for rescheduling of the loan.
- Decline in values of, or adverse developments on, collaterals securing the loan.

*Risk Rating 8 – Substandard.* The borrower is currently highly vulnerable and is in a state of default. Substandard loans are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable or unsatisfactory characteristics. These well-defined adverse elements exist in such loans where there is a possibility of future loss to the institution unless given closer supervision. Such may include adverse trends or development of a financial, managerial, economic or political nature or significant weakness in collateral.

Basic characteristics are:

- Past due loan for which there is an imminent possibility of foreclosure or acquisition of the collateral because of failure of all collection efforts;
- Past due loans to borrowers whose properties securing the loan have declined in value materially or have been found with defects as to ownership or other adverse information;
- Current loans to borrowers whose financial statements audited by the SEC-accredited external auditors show impaired/negative net worth, except for startup firms which should be evaluated on a case-to-case basis;
- Renewed loans of borrowers with declining trend in operations, illiquidity, or increasing leverage trend in the borrower's financial statements without at least 20% repayment of the principal before renewal or extension;
- Current loans of borrowers with unfavorable results of operations for two consecutive years or with impaired/negative net worth, except for startup firms which should be evaluated on a case-to-case basis;
- Loans under litigation; and
- Past due loans for more than 90 days.

*Risk Rating 9 – Doubtful.* Borrower is in a state of default, where any of the following factors are present:

- Account is already in “non-performing loan” (NPL) status;
- Any portion of any principal and/or interest repayment is in arrears for more than 90 days;
- The borrower is unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service is doubtful; and
- Overdue loans wherein the prospects of fully applying the collaterals are impaired due to material declines in market value, or subject of adverse claim.

The extent of probability of loss cannot be exactly quantified at this time. Although the possibility of loss is significant, there may be certain important and reasonably specific pending factors that can work to the advantage of the Bank and result in a strengthening of assets of the borrower. Pending factors include merger, acquisition, capital injection and additional cover.

*Risk Rating 10 – Loss.* Borrower is in a state of default and the prospect for re-establishment of creditworthiness and debt service is remote.

This category also applies where the Bank will take or has taken title to the assets of the borrower and is preparing a foreclosure and/or liquidation of the Bank.

These are loans, or portions thereof, which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is neither practical nor desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

Basic characteristics are:

- Past due clean loans, the interest of which has remained unpaid for a period of six months;
- Loans payable in installments where amortization applicable to interest is past due for a period of six months, unless the loan is fully secured;
- When the borrower’s whereabouts are unknown, or he is insolvent, or his earning power is permanently impaired and his co-makers or guarantors are insolvent or that their guarantee is not financially supported;
- Where the collaterals securing the loans are considered worthless and the borrower and/or his co-makers are insolvent; and
- Loan considered as absolutely uncollectible.

#### **Collateral and Other Credit Risk Mitigation**

The amount and type of collateral required depends on an assessment of the credit risk of the obligor. The Bank implements certain requirements regarding the acceptability of types of collateral and valuation.

Collateral comes in the form of financial or nonfinancial assets. The main types of collateral obtained include cash or securities, charges over real estate or chattel properties, inventory and trade receivables and mortgages over residential properties. The Bank also obtains guarantees from parent companies for loans of borrowing entities belonging to a group of companies.

The Bank monitors the market value of collateral, and request for additional collateral in accordance with the underlying agreement.

The following table shows the fair value of collaterals held against the loans and receivables that are neither past due nor impaired:

	<b>2024</b>	2023
Properties	<b>₱25,600,860,994</b>	₱19,130,374,439
Deposits	<b>3,539,719,111</b>	1,265,296,440
	<b>₱29,140,580,105</b>	₱20,395,670,879

It is the Bank's policy to sell foreclosed assets through public bidding (only after the assets are appraised anew to determine current market value, and duly bid based on the approved minimum bid price).

#### **Liquidity Risk**

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when these become due, without incurring unacceptable losses or costs. Specifically, this pertains to events that may necessitate the Bank to enter into transactions that would realize significant losses or costs in order to meet its obligations when these fall due.

ALCO is responsible for formulating the Bank's liquidity risk management policies, whereas the RMG is responsible for monitoring such risks. Liquidity management is among the most important activities conducted within the Bank. The Bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. The Bank utilizes a diverse range of sources of funds, although short-term deposits made with the Bank's network of domestic branches comprise the majority of such funding.

The Bank's liquidity risk is managed by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met with minimum sacrifice to market price and by maintaining a balanced loan portfolio, which is re-priced on a regular basis. Deposits with banks are made on a short-term basis with almost all being available on demand within three months.

The Bank's Treasury Department uses liquidity forecast models that estimate the Bank's cash flow requirements based on the Bank's actual contractual obligations under normal circumstances and extraordinary circumstances. RMG prepares a monthly maximum cumulative outflow report, which is an analysis of maturity gaps of the Bank's assets and liabilities.

### Aging of Financial Assets and Liabilities by Remaining Contractual Maturities

The tables below summarize the maturity profile of the Bank's financial assets and liabilities used for liquidity management based on contractual undiscounted payments and receipts as at December 31, 2024 and 2023:

	2024						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
<b>Financial Assets</b>							
Financial assets at FVPL	P-	P859,867,389	P-	P58,652,425	P-	P-	P918,519,814
Financial assets at FVOCI	-	2,264,617,867	912,390,017	219,420,947	91,464,864	804,643,426	4,292,537,121
Financial assets at amortized cost:							
Cash and other cash items	591,461,645	-	-	-	-	-	591,461,645
Due from BSP	-	2,693,012,542	-	-	-	-	2,693,012,542
Due from other banks	2,185,035,209	-	-	-	-	-	2,185,035,209
Government securities	-	-	-	58,652,425	-	28,922,500	87,574,925
Private bonds	-	-	-	-	-	69,627,733	69,627,733
Loans and receivables:							
Receivables from customers	-	13,081,590,150	2,853,171,720	10,969,419,859	3,211,586,755	10,163,213,662	40,278,982,146
Accrued interest income	-	841,921,521	-	-	-	-	841,921,521
Accounts receivable	-	101,307,603	-	-	-	-	101,307,603
Sales contracts receivable	-	-	-	-	-	30,752,942	30,752,942
Other assets*	-	499,336	-	-	-	29,834,134	30,333,470
	<b>P2,776,496,854</b>	<b>P19,842,816,408</b>	<b>P3,765,561,737</b>	<b>P11,306,145,656</b>	<b>P3,303,051,619</b>	<b>P11,126,994,397</b>	<b>P52,121,066,671</b>
<b>Financial Liabilities</b>							
Deposit liabilities:							
Savings	P24,368,291,618	P-	P-	P-	P-	P-	P24,368,291,618
Demand	10,703,889,573	-	-	-	-	-	10,703,889,573
Time	-	6,193,239,254	2,194,587,561	3,384,792,161	724,432,949	1,583,658,965	14,080,710,890
	35,072,181,191	6,193,239,254	2,194,587,561	3,384,792,161	724,432,949	1,583,658,965	49,152,892,081
Interbank loans payable	-	175,000,000	-	-	-	-	175,000,000
Manager's checks	-	131,325,324	-	-	-	-	131,325,324
Accrued interest and other expenses**	-	167,986,281	-	-	-	-	167,986,281
Unsecured subordinated debt	-	-	-	-	-	1,300,000,000	1,300,000,000
Lease liabilities	-	5,416,554	5,442,510	20,168,686	42,297,466	206,853,286	280,178,502
Other liabilities***	-	970,702,206	-	-	-	-	970,702,206
	<b>P35,072,181,191</b>	<b>P7,643,669,619</b>	<b>P2,200,030,071</b>	<b>P3,404,960,847</b>	<b>P766,730,415</b>	<b>P3,090,512,251</b>	<b>P52,178,084,394</b>

\*Comprised of restricted cash, refundable deposits and RCOCI.

\*\*Excluding accrued gross receipts tax.

\*\*\*Excluding due to PDIC, withholding taxes and statutory obligations.

	2023						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
<b>Financial Assets</b>							
Financial assets at FVPL	P-	P114,982	P-	P-	P-	P-	P114,982
Financial assets at FVOCI	-	2,838,824,873	234,790,740	272,662,067	26,183,779	201,351,950	3,573,813,409
Financial assets at amortized cost:							
Cash and other cash items	578,568,031	-	-	-	-	-	578,568,031
Due from BSP	662,479,460	1,393,686,469	-	-	-	-	2,056,165,929
Due from other banks	1,502,080,267	-	-	-	-	-	1,502,080,267
Interbank loans receivable	-	1,348,001,167	-	-	-	-	1,348,001,167
Government securities	-	55,451,084	-	-	-	87,499,490	142,950,574
Loans and receivables:							
Receivables from customers	-	10,164,277,300	1,892,370,111	11,092,120,225	2,926,103,631	8,169,636,972	34,244,508,239
Accrued interest income	-	636,758,524	-	-	-	-	636,758,524
Accounts receivable	-	50,423,853	-	-	-	-	50,423,853
Sales contracts receivable	-	-	-	-	433,087	25,317,709	25,750,796
Other assets*	-	126,348,445	-	-	-	29,246,619	155,595,064
	<b>P2,743,127,758</b>	<b>P16,613,886,697</b>	<b>P2,127,160,851</b>	<b>P11,364,782,292</b>	<b>P2,952,720,497</b>	<b>P8,513,052,740</b>	<b>P44,314,730,835</b>
<b>Financial Liabilities</b>							
Deposit liabilities:							
Savings	P18,194,453,538	P-	P-	P-	P-	P-	P18,194,453,538
Demand	10,269,072,898	-	-	-	-	-	10,269,072,898
Time	-	5,343,086,938	1,126,323,983	784,386,845	771,024,691	2,205,467,418	10,230,289,875
	28,463,526,436	5,343,086,938	1,126,323,983	784,386,845	771,024,691	2,205,467,418	38,693,816,311
Manager's checks	-	121,010,179	-	-	-	-	121,010,179
Accrued interest and other expenses**	-	253,526,084	-	-	-	-	253,526,084
Unsecured subordinated debt	-	-	-	-	-	1,300,000,000	1,300,000,000
Lease liabilities	-	5,416,554	5,442,510	20,168,686	36,244,215	201,201,073	268,473,038
Other liabilities***	-	923,727,944	-	-	-	-	923,727,944
	<b>P28,463,526,436</b>	<b>P6,646,767,699</b>	<b>P1,131,766,493</b>	<b>P804,555,531</b>	<b>P807,268,906</b>	<b>P3,706,668,491</b>	<b>P41,560,553,556</b>

\*Comprised of restricted cash, refundable deposits and RCOCI.

\*\*Excluding accrued gross receipts tax.

\*\*\*Excluding due to PDIC, withholding taxes and statutory obligations.

The Bank manages its short-term negative gap by making available funds sourced from various other financial institutions and taking measures to maintain long-term core deposits from regular clients. The Bank may also dispose its financial assets at FVOCI when the need for liquidity arises.

#### **Minimum Liquidity Ratio (MLR)**

Under Section 145, *Liquidity Risk Management*, of the Manual of Regulations for Banks (MORB), thrift banks, rural/cooperative banks (RBs and Coop Banks), and quasi-banks (QBs) that are not subsidiaries of universal or commercial banks (UBs/KBs) are required to maintain a prudential Minimum Liquidity Ratio (MLR) of 20% daily to promote short-term resilience to liquidity shocks. MLR is expressed as a percentage of eligible stock of liquid assets to its total qualifying liabilities. The stock of liquid assets is required to be unencumbered and readily liquefiable, while the qualifying liabilities include both on-balance sheet and off-balance sheet commitments.

The Bank is compliant with the requirement having an MLR of 20.91% and 22.72% as at December 31, 2024 and 2023, respectively.

#### **Market Risk**

Market risk is the risk of loss of future earnings, fair values or future cash flows as a result of changes in interest rate, foreign exchange rate, commodity prices, equity prices and other market changes. The Bank's market risk originates from its holdings of debt securities.

ALCO, chaired by the Head of Treasury, is the management level committee responsible for review and management of market risk. In managing market risk, the Bank uses a framework of policies and procedures, measurement tools, controls and limits. The Bank's Treasury Group manages asset/liability risks arising from both normal banking operations and from trading operations in financial market. Daily monitoring of compliance with the policies, procedures and limits is performed by the Market Risk Department under RMG. The limits are annually reviewed by the ALCO and RMG and approved by RMC. RMG performs regular reporting to ALCO and to the RMC, which is a sub-committee of the BOD.

#### **Interest Rate Risk**

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rate, is kept within acceptable limits.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of Earnings-at-Risk (EaR). EaR is a measure of likely earnings volatility for accrual portfolios. It is calculated as the change in income over the next 12 months, given current exposures that will result from one-year standard deviation change in interest rate, updated monthly. EaR is calculated based on 99.00% confidence level. It is accomplished monthly, with quarterly stress test.

The following tables demonstrate the sensitivity to a reasonable possible change in interest rate of the Bank's net income and equity with all other variables held constant:

	2024				2023			
	Increase (Decrease) in Basis Points				Increase (Decrease) in Basis Points			
	50	50	(50)	(50)	50	50	(50)	(50)
<i>Amounts in Millions</i>	Net Income	Equity	Net Income	Equity	Net Income	Equity	Net Income	Equity
Changes in net interest income:								
Loans and receivables	₱31.91	₱15.95	(₱31.91)	(₱15.95)	₱12.43	₱24.85	(₱12.43)	(₱24.85)
Investment securities at amortized cost	3.69	1.89	(3.86)	(1.91)	1.04	2.09	(1.00)	(1.99)
Deposit liabilities	(40.96)	(20.48)	40.96	20.48	(17.42)	(34.83)	17.42	34.83
As a percentage of the net interest income for the year	(0.4%)	(0.2%)	0.4%	0.2%	(0.3%)	(0.5%)	0.3%	0.5%
Changes in equity* -								
Financial assets at FVOCI	(36.94)	(18.60)	39.37	19.54	(4.54)	(9.23)	5.12	10.09

\*The impact on the Bank's equity already excludes the impact of transactions affecting the profit or loss.

### Foreign Currency Risk

Foreign currency risk is the risk of an investment's value erosion due to an adverse movement in foreign exchange rate. It arises due to a mismatch in the Bank's foreign currency-denominated assets and liabilities.

Foreign currency-denominated deposits are generally used to fund the Bank's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency-denominated liabilities with the foreign currency-denominated assets held under the FCDU books. In addition, the BSP requires 100% asset coverage for its FCDU liabilities, 30% of which should be in the form of liquid assets. As at December 31, 2024 and 2023, the Bank is in compliance with the said regulation.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The following table summarizes the Bank's foreign currency-denominated financial assets and liabilities as at December 31, 2024 and 2023. Included in the table are assets and liabilities at carrying amounts in Philippine Peso equivalent, categorized by currency.

	2024			2023		
	USD	Others*	Total	USD	Others*	Total
<b>Financial Assets</b>						
Cash and other cash items	₱45,590,305	₱3,843	₱45,594,148	₱59,539,780	₱169,672	₱59,709,452
Due from other banks	2,104,053,117	16,817,372	2,120,870,489	1,423,019,041	15,852,195	1,438,871,236
Investment securities	1,080,827,707	-	1,080,827,707	1,230,185,061	-	1,230,185,061
Loans and receivables	650,756,250	-	650,756,250	514,941,000	-	514,941,000
	3,881,227,379	16,821,215	3,898,048,594	3,227,684,882	16,021,867	3,243,706,749
<b>Financial Liabilities</b>						
Deposit liabilities	3,777,320,561	7,675,872	3,784,996,433	3,155,202,912	6,675,363	3,161,878,275
<b>Net Exposure</b>	<b>₱103,906,818</b>	<b>₱9,145,343</b>	<b>₱113,052,161</b>	<b>₱72,481,970</b>	<b>₱9,346,504</b>	<b>₱81,828,474</b>

\*Consist of Euro, United Kingdom Pound, Canadian Dollar, Australian Dollar, Hong Kong Dollar, New Zealand Dollar, Singapore Dollar, Japanese Yen, Swiss Franc and Chinese Yuan.

The following table sets forth the impact of reasonably possible changes in the USD exchange rate on the Bank's net income:

<i>Amounts in Millions</i>	<b>Increase (Decrease) in Currency</b>			
	5.0%	10.0%	(5.0%)	(10.0%)
USD				
<b>2024</b>	<b>₱0.58</b>	<b>₱1.15</b>	<b>(₱0.58)</b>	<b>(₱1.15)</b>
2023	0.48	0.96	(0.48)	(0.96)

The increase in USD exchange rate represents depreciation of Philippine Peso while the decrease in USD exchange rate represents an appreciation of Philippine Peso. The increase or decrease in exchange rate of other currencies is not significant.

There is no other impact in the Bank's equity other than those already affecting the net income.

### **Market Risk in the Trading Book**

The Bank is exposed to the potential loss in its trading portfolio because the value of its trading positions is sensitive to changes in market prices and rate. The trading activities of the Bank include investments in fixed income securities and foreign exchange trading, which exposes the Bank to interest rate and foreign exchange risks. In the trading book, market risk is controlled by a daily analysis of the Value-at-Risk (VaR) of financial instruments under normal market conditions.

### **Objectives and Limitations of the VaR Methodology**

The Bank uses the VaR approach in assessing possible changes in the market value of the trading portfolio based on historical data for a rolling one year period. The Bank employs the use of historical methodology in calculating the VaR. This model assumes that the exact distribution of past returns does not apply during sudden changes in market condition. The use of historical VaR model has limitations and requires a significant amount of risk factor history. It does not capture probabilities that have not yet occurred while it captures irregularities present in the historical database.

The VaR figures are backtested to validate the robustness of the VaR model. The Bank performs the hypothetical and actual backtesting procedures for both RBU and FCPU securities. Likewise, to complement VaR measurement, the Bank performs stress tests wherein the trading portfolios are valued under extreme market scenarios.

### **VaR Assumptions/Parameters**

The VaR that the Bank measures is an estimate that uses actual historical rates and revalues positions for any changes in the market. It is appropriate for all types of instruments, linear and non-linear, with stable risk factors for which there is a rich historical database. Since VaR is an integral part of the Bank's market risk management, VaR limits have been established annually for all financial trading activities and exposures against the limits are monitored on a daily basis. Limits are based on the tolerable risk appetite of the Bank.

The Market Risk Officer of the Bank prepares a daily VaR report containing details on the VaR amount, VaR limit utilization, and VaR limit breaches, if any. This report is submitted to the traders concerned, the Treasury Head, Chief Risk Officer, Treasury Operations Head and the President. Moreover, the VaR results are discussed and reported in the monthly Risk Management Committee meetings.

The following table provides the VaR summary of the Bank for the years ended December 31, 2024 and 2023:

<i>Amounts in Thousands</i>	2024		2023	
	Foreign Exchange	Fixed Income	Foreign Exchange	Fixed Income
December 28	<b>₱778</b>	<b>₱4,315</b>	₱659	₱—
Average Daily	<b>598</b>	<b>4,820</b>	629	781
Highest	<b>1,310</b>	<b>6,957</b>	2,244	1,903
Lowest	<b>0.11</b>	<b>772</b>	0.26	12

Fixed income VaR includes value-at-risk for investment securities denominated in currencies other than Philippine Peso. VaR, being a measure of risk in the trading book, only includes held for trading portfolio.

The Bank's trading in fixed income securities is exposed to movements in interest rate. The high and low of the total portfolio may not equal to the sum of the individual components as the high and low of the individual portfolios may have occurred on different trading days. The VaR of foreign exchange is the foreign exchange risk throughout the Bank. The Bank, when aggregating the foreign exchange VaR and interest VaR, does not consider the correlation effects between the two risks.

### **Capital Management**

The primary objectives of the Bank's capital management are to ensure that it complies with externally-imposed capital requirements and 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 where there are 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, or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

### **Regulatory Qualifying Capital**

Under Appendix 59, *Risk-based Capital Adequacy Framework for the Philippine Banking System*, of the MORB, the determination of compliance with regulatory requirements and ratios is based on the amount of the "qualifying capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies that differ from PFRS Accounting Standards in some respects.

The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10%. Qualifying capital and risk-weighted assets (RWA) are computed based on the BSP regulations. RWA consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letter of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP. RWA is the sum of credit RWA, market RWA, and operational RWA, as defined under Appendix 59 of MORB.

The details of CAR as at December 31, as reported to the BSP are as follows:

<i>Amounts in Thousands</i>	<b>2024</b>	<b>2023</b>
Common Equity Tier 1 (CET1) capital	<b>₱4,325,230</b>	₱3,566,430
Additional Tier 1 (AT1) capital	–	–
Tier 1 capital	<b>4,325,230</b>	3,566,430
Required deductions	<b>409,002</b>	336,505
	<b>3,916,228</b>	3,229,925
Excess from Tier 2 deducted from Tier 1 Capital*	–	–
Net Tier 1 Capital	<b>3,916,228</b>	3,229,925
Tier 2 capital	<b>1,939,857</b>	1,854,939
Required deductions	–	–
	<b>1,939,857</b>	1,854,939
Excess of Tier 2 deducted from Tier 1 Capital*	–	–
Net Tier 2 Capital	<b>1,939,857</b>	1,854,939
Total Qualifying Capital	<b>₱5,856,085</b>	₱5,084,864

\*Deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital.

	<b>2024</b>	<b>2023</b>
Credit RWA	<b>₱39,972,852</b>	₱34,008,564
Market RWA	<b>1,253,145</b>	9,384
Operational RWA	<b>2,957,017</b>	3,062,645
Total RWA	<b>₱44,183,014</b>	₱37,080,593
CET1/Tier 1 capital ratio	<b>8.86%</b>	8.71%
Total capital ratio	<b>13.25%</b>	13.71%

The Bank's regulatory qualifying capital consists of Tier 1 (core) capital, which comprises paid-up common stock, surplus including current year profit, and cumulative foreign currency translation less required deductions such as unsecured credit accommodations to DOSRI and deferred tax assets and defined benefits pension. Certain adjustments are made to results and reserves based on PFRS Accounting Standards, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes paid-up preferred stock, unsecured subordinated debt and general loan loss provision (GLLP).

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on the ratings by S&P, Moody's, Fitch and Philratings on exposures to sovereigns, multilateral development banks, banks, local government units, government corporations and corporates.

The Bank has complied with all externally imposed capital requirements in 2024 and 2023.

#### **Leverage Ratio**

The BSP also requires the maintenance of leverage ratio of not less than 5.00%, which is designed to act as a supplementary measure to risk-based capital requirements.

The Bank's leverage ratio, which is computed by dividing the total capital by the total exposure measure, is as follows:

<i>Amounts in Thousands</i>	<b>2024</b>	<b>2023</b>
Total capital	<b>₱4,325,230</b>	₱3,566,430
Total exposure measure	<b>58,444,493</b>	47,283,742
Leverage ratio	<b>7.40%</b>	7.54%

As at December 31, 2024 and 2023, the Bank is compliant with the leverage ratio requirements of the BSP.

## 5. Fair Value Measurement

The following table presents the carrying amounts and fair values of the Bank's assets measured at fair value and for which fair values are disclosed, and the corresponding hierarchy.

	2024			
	Carrying Amount	Fair Value		
		Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets Measured at Fair Value</b>				
Financial assets at FVPL -				
Government securities	₱918,519,814	₱918,519,814	₱-	₱-
Financial assets at FVOCI:				
Government securities	4,208,989,538	4,208,989,538	-	-
Private bonds	67,474,120	67,474,120	-	-
	<b>5,194,983,472</b>	<b>5,194,983,472</b>	-	-
<b>Assets for which Fair Values are Disclosed</b>				
Financial assets at amortized cost:				
Government securities	87,574,925	87,415,258	-	-
Private bonds	69,627,733	69,148,206	-	-
Loans and receivables:				
Receivable from customers:				
Consumer loans	11,327,142,529	-	-	12,044,085,693
Corporate loans	32,222,688,160	-	-	33,301,450,702
Sales contracts receivable	27,542,541	-	-	30,939,352
	<b>43,734,575,888</b>	<b>156,563,464</b>	-	<b>45,376,475,747</b>
Foreclosed assets:				
Investment properties	541,214,403	-	692,547,673	-
Assets held for sale	33,741,786	-	33,741,786	-
Refundable deposits	29,869,793	-	-	29,869,793
<b>Total Assets</b>	<b>₱49,534,385,342</b>	<b>₱5,351,546,936</b>	<b>₱726,289,459</b>	<b>₱45,406,345,540</b>
<b>Liabilities for which Fair Values are Disclosed</b>				
Time deposits	₱14,080,710,890	₱-	₱14,080,710,890	₱-
Unsecured subordinated debt	1,300,000,000	-	1,149,349,068	-
Lease liabilities	280,178,502	-	-	280,178,502
<b>Total Liabilities</b>	<b>₱15,660,889,392</b>	<b>₱-</b>	<b>₱15,230,059,958</b>	<b>₱280,178,502</b>

	2023			
	Carrying Amount	Fair Value		
		Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets Measured at Fair Value</b>				
Financial assets at FVPL -				
Government securities	₱114,982	₱114,982	₱-	₱-
Financial assets at FVOCI:				
Government securities	3,495,536,963	3,495,536,963	-	-
Private bonds	62,202,983	62,202,983	-	-
	3,557,854,928	3,557,854,928	-	-
<b>Assets for which Fair Values are Disclosed</b>				
Financial assets at amortized cost -				
Government securities	142,950,574	133,591,886	-	-
Loans and receivables:				
Receivable from customers:				
Consumer loans	8,910,774,695	-	-	8,995,226,305
Corporate loans	25,443,597,269	-	-	25,075,538,675
Sales contracts receivable	23,640,175	-	-	22,888,083
	34,520,962,713	133,591,886	-	34,093,653,063
Foreclosed assets:				
Investment properties	585,342,707	-	624,677,063	-
Assets held for sale	10,369,647	-	10,369,647	-
Refundable deposits	29,246,619	-	29,246,619	-
<b>Total Assets</b>	<b>₱38,703,776,614</b>	<b>₱3,691,446,814</b>	<b>₱664,293,329</b>	<b>₱34,093,653,063</b>
<b>Liabilities for which Fair Values are Disclosed</b>				
Time deposits	₱10,230,289,875	₱-	₱10,230,289,875	₱-
Unsecured subordinated debt	1,300,000,000	-	1,189,515,572	-
Lease liabilities	268,473,038	-	-	268,473,038
<b>Total Liabilities</b>	<b>₱11,798,762,913</b>	<b>₱-</b>	<b>₱11,419,805,447</b>	<b>₱268,473,038</b>

There were no transfers between levels/hierarchies of fair value measurements in 2024 and 2023.

The methods and assumptions used by the Bank in estimating the fair value of the assets and liabilities of the Bank that are carried at fair value and those whose fair values are disclosed are as follows.

*Investment Securities.* Fair values are generally based upon quoted market prices, if available. If the market prices are not readily available, fair values are estimated by either using values obtained from adjusted quoted market prices of comparable investments.

*Loans and Receivables.* Fair values are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rate for similar types of loans.

Significant Unobservable Inputs	Range (weighted average)	
	2024	2023
Transfer pool rate	7.05% - 7.79%	6.73% - 7.78%
Credit spread	3.46% - 4.41%	0.60% - 1.94%

Certain loans are subject to quarterly repricing. Hence, the carrying amounts of these loans approximate fair values.

*Sensitivity Analysis.* Generally, significant increases (decreases) in rate would result in a significantly (lower) higher fair value measurement. Significant increases (decreases) in effective interest rate would result in a significantly lower (higher) fair value measurement.

*Foreclosed Assets.* Fair value is based on valuation using the market data approach, as determined by an independent and/or in-house appraiser. Valuations were derived on the basis of recent sales of similar properties in the same area as the properties and taking into account the economic conditions prevailing at the time the valuations were made. The most significant input into this valuation approach is the price per square meter for investment properties and the unit price for assets held for sale, hence, the higher the price per square meter or unit price, the higher the fair value. The fair value measurement is categorized as Level 2 (significant observable inputs).

*Refundable Deposits.* Fair value is based on discounted cash flows using the prevailing credit-adjusted interest rate.

Generally, significant increases (decreases) in rate would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in effective interest rate would result in a significantly lower (higher) fair value measurement.

*Time Deposits and Unsecured Subordinated Debt.* Fair values of these instruments are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with the remaining liabilities being valued.

*Lease Liabilities.* Fair values are estimated using the discounted cash flow methodology, using the Bank's incremental borrowing rates upon commencement of leases.

*Sensitivity Analysis.* Generally, significant increases (decreases) in rate would result in a significantly (lower) higher fair value measurement.

The table below presents the financial assets and liabilities of the Bank, whose carrying amounts approximate fair values due to the short-term nature or demand feature of the transactions:

	2024	2023
<b>Financial Assets</b>		
Cash and other cash items	₱591,461,645	₱578,568,031
Due from BSP	2,693,012,542	2,056,165,929
Due from other banks	2,185,035,209	1,502,080,267
Interbank loans receivable	-	1,348,001,167
Loans and receivables:		
Accrued interest income	875,338,955	636,758,524
Accounts receivable	101,307,603	50,423,853
Others	-	18,413,588
Other assets*	125,738,656	126,348,445
	<b>₱6,571,894,610</b>	<b>₱6,316,759,804</b>
<b>Financial Liabilities</b>		
Deposit liabilities		
Savings	₱24,368,291,618	₱18,194,453,538
Demand	10,703,889,573	10,269,072,898
	<b>35,072,181,191</b>	<b>28,463,526,436</b>
Interbank loans payable	175,000,000	-
Manager's checks	131,325,324	121,010,179
Accrued interest and other expenses	167,852,719	253,526,084
Other liabilities**	970,702,205	923,727,944
	<b>₱36,517,061,439</b>	<b>₱29,761,790,643</b>

\*Comprised of restricted cash and RCOCI.

\*\*Excluding due to PDIC, withholding taxes, and statutory obligations.

## 6. Interbank Loans Receivable and Payable

Interbank loans receivable amounting to ₱1,348.0 million as at December 31, 2023 pertain to short-term loans to local and foreign banks with maturities up to three months.

Interbank loans payable amounting to ₱175.0 million as at December 31, 2024 pertain to short-term loans from local and foreign banks with maturities up to three months.

Interbank loans payable and receivable bear interest rates as follows:

	2024	2023
Local banks	4.25% to 6.56%	4.10% to 6.25%
Foreign banks	4.19% to 4.98%	4.03% to 5.02%

Interest income on interbank loans receivable amounted to ₱104.1 million and ₱91.7 million in 2024 and 2023, respectively.

Interest expense on interbank loans payable amounted to ₱443,550 and ₱246,745 in 2024 and 2023, respectively (see Note 13).

## 7. Investment Securities

This account consists of:

	2024			
	Financial Assets at			
	FVPL	FVOCI	Amortized Cost	Total
Balances at beginning of year	₱114,982	₱3,573,813,409	₱142,950,574	₱3,716,878,965
Additions	6,635,317,814	31,247,426,000	69,414,000	37,952,157,814
Matured investments	-	(30,573,873,040)	(51,657,500)	(30,625,530,540)
Disposals	(5,716,912,982)	-	-	(5,716,912,982)
Net unrealized fair value gain	-	23,993,849	-	23,993,849
Amortization of premium (discount)	-	21,176,903	(3,504,416)	17,672,487
	<b>₱918,519,814</b>	<b>₱4,292,537,121</b>	<b>₱157,202,658</b>	<b>₱5,368,259,593</b>

  

	2023			
	Financial Assets at			
	FVPL	FVOCI	Amortized Cost	Total
Balances at beginning of year	₱97,461	₱2,059,434,365	₱121,097,676	₱2,180,629,502
Additions	5,267,833,642	25,854,180,378	26,915,000	31,148,929,020
Matured investments	-	(24,342,773,829)	-	(24,342,773,829)
Disposals	(5,267,816,121)	-	-	(5,267,816,121)
Amortization of discount	-	(14,439,441)	(5,062,102)	(19,501,543)
Net unrealized fair value gain	-	17,411,936	-	17,411,936
	<b>₱114,982</b>	<b>₱3,573,813,409</b>	<b>₱142,950,574</b>	<b>₱3,716,878,965</b>

### Financial Assets at FVPL

Financial assets at FVPL primarily consist of government securities held by the Bank for trading.

Net trading and securities gains from financial assets at FVPL amounted to ₱46.1 million and ₱32.4 million in 2024 and 2023, respectively.

**Financial Assets at FVOCI**

Financial assets at FVOCI are comprised of the following:

	2024	2023
Government-issued securities	<b>₱4,208,989,538</b>	₱3,495,536,963
Private bonds	<b>67,474,120</b>	62,202,983
Unquoted equity security	<b>16,073,463</b>	16,073,463
	<b>₱4,292,537,121</b>	₱3,573,813,409

Financial assets at FVOCI bear annual effective interest rates as follows:

	2024	2023
Philippine Peso-denominated	<b>5.90% to 6.18%</b>	5.28% to 6.82%
Foreign currency-denominated	<b>4.09% to 5.33%</b>	5.16% to 6.22%

Movements in cumulative unrealized gains (losses) on fair value changes of financial assets at FVOCI are as follows:

	2024	2023
Balance at beginning of year	<b>(₱3,391,524)</b>	(₱20,803,460)
Net unrealized gains	<b>23,993,849</b>	17,411,936
Balance at end of year	<b>₱20,602,325</b>	(₱3,391,524)

The unquoted equity security pertains to the Bank's investment in shares of stock of Bancnet, Inc. (Bancnet), which the Bank intends to hold for long-term.

**Financial Assets at Amortized Cost**

Financial assets at amortized cost comprised of:

	2024	2023
Government securities	<b>₱87,574,925</b>	₱142,950,574
Private bonds	<b>69,627,733</b>	-
	<b>₱157,202,658</b>	₱142,950,574

In 2024 and 2023, effective interest rates of financial assets at amortized cost range from 4.09% to 5.26% and 4.62% to 6.22%, respectively.

Interest income on investment securities are as follows:

	2024	2023
Financial assets at:		
FVOCI	<b>₱248,341,374</b>	₱182,755,875
FVPL	<b>57,533,245</b>	158,187
Amortized cost	<b>7,348,985</b>	3,323,214
	<b>₱313,223,604</b>	₱186,237,276

## 8. Loans and Receivables

This account consists of:

	2024	2023
Receivables from customers	<b>₱44,600,666,123</b>	₱35,133,361,311
Accrued interest	<b>875,338,955</b>	636,758,524
Accounts receivable	<b>101,307,603</b>	50,423,853
Sales contracts receivable	<b>30,752,942</b>	25,750,796
	<b>45,608,065,623</b>	35,846,294,484
Allowance for credit and impairment losses	<b>(851,609,091)</b>	(888,853,072)
	<b>₱44,756,456,532</b>	₱34,957,441,412

Receivables from customers consist of:

	2024	2023
Loans and discounts:		
Corporate loans	<b>₱32,781,948,701</b>	₱25,775,377,118
Consumer loans	<b>11,810,696,764</b>	9,330,719,004
Others	<b>9,979,600</b>	28,393,188
	<b>44,602,625,065</b>	35,134,489,310
Unearned discounts and capitalized interest	<b>(1,958,942)</b>	(1,127,999)
	<b>₱44,600,666,123</b>	₱35,133,361,311

Accounts receivable include receivables relating to car lease agreements amounting to ₱45.6 million and ₱36.5 million as at December 31, 2024 and 2023, respectively, and withdrawals made by depositors of other banks to the Bank's Automated Teller Machines (ATM).

Sales contracts receivable pertain to receivables from buyers of foreclosed real estate properties bearing 8.00% to 11.00% nominal interest, with terms of three to 15 years.

Details of interest income on loans and receivables are as follows:

	2024	2023
Corporate loans	<b>₱2,405,924,494</b>	₱2,020,823,289
Consumer loans	<b>940,808,085</b>	656,168,306
Sales contracts receivable	<b>2,028,865</b>	2,830,030
Others	<b>8,493,606</b>	5,419,677
	<b>₱3,357,255,050</b>	₱2,685,241,302

Of the total loans and receivables as at December 31, 2024 and 2023, 91.77% and 90.72%, respectively, are subject to periodic interest repricing. The remaining peso-denominated loans have annual fixed interest ranging from 2.574% to 29.56% in 2024 and 2.50% to 24.00% in 2023.

Movements in the allowance for credit and impairment losses on loans and receivables are as follows:

2024				
	Corporate Loans	Consumer Loans	Sales Contract Receivable	Total
Balances at beginning of year	P450,630,703	P436,119,071	P2,103,298	P888,853,072
Write-offs	-	(55,359,986)	-	(55,359,986)
Provision (reversal)	(11,397,216)	28,406,118	1,107,103	18,116,005
Balances at end of year	P439,233,487	P409,165,203	P3,210,401	P851,609,091

  

2023				
	Corporate Loans	Consumer Loans	Sales Contract Receivable	Total
Balances at beginning of year	P402,320,079	P564,724,896	P1,119,896	P968,164,871
Write-offs	(22,739,181)	(75,876,351)	-	(98,615,532)
Provision (reversal)	71,049,805	(52,729,474)	983,402	19,303,733
Balances at end of year	P450,630,703	P436,119,071	P2,103,298	P888,853,072

Below is the analysis of corporate loans (gross of unearned discounts and capitalized interest):

2024				
	Stage 1	Stage 2	Stage 3	Total
<b>Gross Amount</b>				
Balances at beginning of year	P23,144,695,299	P1,055,545,400	P1,575,136,419	P25,775,377,118
Loan releases	7,124,937,955	-	-	7,124,937,955
Payments or reclassifications upon foreclosure	(85,900,560)	(4,749,398)	(27,716,414)	(118,366,372)
Transfers to stage 3	(84,184,196)	(203,959,700)	288,143,896	-
Balances at end of year	30,099,548,498	846,836,302	1,835,563,901	32,781,948,701
<b>Allowance for Credit and Impairment Losses</b>				
Balances at beginning of year	40,274,229	59,139,332	351,217,142	450,630,703
Provisions (reversals)	(1,010,660)	12,055,244	(22,441,800)	(11,397,216)
Transfers to stage 3	(8,331,277)	(54,332,713)	62,663,990	-
Balances at end of year	30,932,292	16,861,863	391,439,332	439,233,487
<b>Carrying Amount</b>	<b>P30,068,616,206</b>	<b>P829,974,439</b>	<b>P1,444,124,569</b>	<b>P32,342,715,214</b>

  

2023				
	Stage 1	Stage 2	Stage 3	Total
<b>Gross Amount</b>				
Balances at beginning of year	P20,951,605,142	P910,849,484	P1,595,880,418	P23,458,335,044
Loan releases	3,565,318,333	94,262,166	-	3,659,580,499
Payments or reclassifications upon foreclosure	(86,187,092)	(8,805,645)	(1,224,806,507)	(1,319,799,244)
Write-offs	-	-	(22,739,181)	(22,739,181)
Transfers to stage 2	(69,140,000)	69,140,000	-	-
Transfers to stage 3	(1,216,901,084)	(9,900,605)	1,226,801,689	-
Balances at end of year	23,144,695,299	1,055,545,400	1,575,136,419	25,775,377,118
<b>Allowance for Credit and Impairment Losses</b>				
Balances at beginning of year	76,625,041	47,748,072	277,946,966	402,320,079
Provisions (reversals)	(22,071,892)	10,966,978	82,154,719	71,049,805
Write-offs	-	-	(22,739,181)	(22,739,181)
Transfers to stage 2	(1,732,015)	1,732,015	-	-
Transfers to stage 3	(12,546,905)	(1,307,733)	13,854,638	-
Balances at end of year	40,274,229	59,139,332	351,217,142	450,630,703
<b>Carrying Amount</b>	<b>P23,104,421,070</b>	<b>P996,406,068</b>	<b>P1,223,919,277</b>	<b>P25,324,746,415</b>

Below is the analysis of movements of consumer loans (gross of unearned discounts and capitalized interest):

	2024			Total
	Stage 1	Stage 2	Stage 3	
<b>Gross Amount</b>				
Balances at beginning of year	₱8,245,985,627	₱196,345,103	₱888,388,274	₱9,330,719,004
Loan releases	4,974,381,648	39,408,136	23,663,357	5,037,453,141
Payments or reclassifications upon foreclosure	(2,347,715,108)	(72,675,882)	(81,724,405)	(2,502,115,395)
Write-offs	–	–	(55,359,986)	(55,359,986)
Transfers to stage 1	30,382,969	(28,343,132)	(2,039,837)	–
Transfers to stage 2	(79,456,783)	83,771,589	(4,314,806)	–
Transfers to stage 3	(53,858,037)	(23,777,538)	77,635,575	–
Balances at end of year	10,769,720,316	194,728,276	846,248,172	11,810,696,764
<b>Allowance for Credit and Impairment Losses</b>				
Balances at beginning of year	6,335,154	714,540	429,069,377	436,119,071
Write-offs	–	–	(55,359,986)	(55,359,986)
Provisions	4,832,821	4,498,949	19,074,348	28,406,118
Transfers to stage 1	12,419	(12,419)	–	–
Transfers to stage 2	(314,777)	463,054	(148,277)	–
Transfers to stage 3	(6,399,785)	(4,797,842)	11,197,627	–
Balances at end of year	4,465,832	866,282	403,833,089	409,165,203
<b>Carrying Amount</b>	<b>₱10,765,254,484</b>	<b>₱193,861,994</b>	<b>₱442,415,083</b>	<b>₱11,401,531,561</b>

  

	2023			Total
	Stage 1	Stage 2	Stage 3	
<b>Gross Amount</b>				
Balances at beginning of year	₱6,483,732,788	₱333,444,635	₱1,082,969,056	₱7,900,146,479
Loan releases	3,931,724,587	20,799,692	6,462,130	3,958,986,409
Payments or reclassifications upon foreclosure	(2,153,832,830)	(134,978,161)	(163,726,542)	(2,452,537,533)
Write-offs	–	–	(75,876,351)	(75,876,351)
Transfers to stage 1	51,974,964	(49,487,624)	(2,487,340)	–
Transfers to stage 2	(46,935,031)	51,123,293	(4,188,262)	–
Transfers to stage 3	(20,678,851)	(24,556,732)	45,235,583	–
Balances at end of year	8,245,985,627	196,345,103	888,388,274	9,330,719,004
<b>Allowance for Credit and Impairment Losses</b>				
Balances at beginning of year	7,173,889	5,157,137	552,393,870	564,724,896
Write-offs	–	–	(75,876,351)	(75,876,351)
Provisions (reversals)	2,853,160	(1,166,387)	(54,416,247)	(52,729,474)
Transfers to stage 1	24,694	(23,848)	(846)	–
Transfers to stage 2	(147,353)	268,257	(120,904)	–
Transfers to stage 3	(3,569,236)	(3,520,619)	7,089,855	–
Balances at end of year	6,335,154	714,540	429,069,377	436,119,071
<b>Carrying Amount</b>	<b>₱8,239,650,473</b>	<b>₱195,630,563</b>	<b>₱459,318,897</b>	<b>₱8,894,599,933</b>

## 9. Foreclosed Assets

Details of foreclosed assets are as follows:

	2024	2023
Investment properties	₱541,214,403	₱585,342,707
Assets held for sale	33,741,786	10,369,647
Other foreclosed assets	3,568,031	10,018,966
	<b>₱578,524,220</b>	<b>₱605,731,320</b>

In 2024 and 2023, loans with an aggregate carrying amount of ₱26.5 million and ₱126.7 million, respectively, were derecognized in exchange for foreclosed properties.

As at December 31, 2024 and 2023, cumulative unrealized losses on foreclosure amounted to ₱38.0 million and ₱41.7 million, respectively.

### Investment Properties

Details and movements in investment properties are as follows:

	2024			2023		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
<b>Cost</b>						
Balance at beginning of year	₱266,168,887	₱384,361,335	₱650,530,222	₱263,840,836	₱279,047,703	₱542,888,539
Additions	–	35,769,040	35,769,040	2,328,051	128,452,573	130,780,624
Disposals	(20,766,852)	(31,079,083)	(51,845,935)	–	(23,138,941)	(23,138,941)
Balance at end of year	245,402,035	389,051,292	634,453,327	266,168,887	384,361,335	650,530,222
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year	–	65,187,515	65,187,515	–	56,533,733	56,533,733
Depreciation (see Note 10)	–	31,457,999	31,457,999	–	27,024,658	27,024,658
Disposals	–	(3,406,590)	(3,406,590)	–	(18,370,876)	(18,370,876)
Balance at end of year	–	93,238,924	93,238,924	–	65,187,515	65,187,515
<b>Carrying Amount</b>	<b>₱245,402,035</b>	<b>₱295,812,368</b>	<b>₱541,214,403</b>	<b>₱266,168,887</b>	<b>₱319,173,820</b>	<b>₱585,342,707</b>

No income was recognized related to the investment properties.

The aggregate fair values of the investment properties amounted to ₱692.5 million and ₱624.7 million as at December 31, 2024 and 2023, respectively. The fair value of the investment properties is determined using the Market Data Approach and is based on recent sale transactions involving properties within the same areas or vicinities taking into account the economic conditions prevailing at the time the valuations were made. The fair value measurement is categorized as Level 2.

### Assets Held for Sale

Assets held for sale, which mainly consist of non-real estate foreclosed assets, are those determined to be saleable within one year from the classification as assets held for sale.

Movements of allowance for impairment losses of assets held for sale is as follows:

	Note	2024	2023
Balance at beginning of year		₱4,967,404	₱4,607,887
Provision	20	12,806,939	359,517
Balance at end of year		₱17,774,343	₱4,967,404

### Other Foreclosed Assets

This account, which pertains to foreclosed assets other than real estate properties, amounted to ₱3.6 million and ₱10.0 million as at December 31, 2024 and 2023, respectively.

Depreciation on other foreclosed assets amounted to ₱2.0 million and ₱3.7 million in 2024 and 2023, respectively (see Note 10).

Proceeds from sale of foreclosed assets amounted to ₱26.8 million and ₱127.5 million in 2024 and 2023, respectively.

Details of net gains (losses) from assets sold or acquired are as follows:

	Note	2024	2023
Foreclosed properties:			
Gain (loss) on sale		<b>₱8,749,705</b>	(₱3,317,418)
Gain (loss) on foreclosure		<b>3,694,484</b>	(11,017,155)
Gain on sale of property and equipment	10	<b>531,085</b>	1,039,649
		<b>₱12,975,274</b>	(₱13,294,924)

## 10. Property and Equipment

Movements in this account are as follows:

	2024					Total
	Land	Building and Condominium Units	ROU Assets (see Note 18)	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
<b>Cost</b>						
Balances at beginning of year	<b>₱164,344,500</b>	<b>₱249,385,860</b>	<b>₱633,703,131</b>	<b>₱462,492,855</b>	<b>₱290,941,844</b>	<b>₱1,800,868,190</b>
Additions	–	1,825,175	83,190,996	57,470,468	20,311,802	162,798,441
Disposals	–	(385,000)	–	(54,504,524)	(4,578,967)	(59,468,491)
Balances at end of year	<b>164,344,500</b>	<b>250,826,035</b>	<b>716,894,127</b>	<b>465,458,799</b>	<b>306,674,679</b>	<b>1,904,198,140</b>
<b>Accumulated Depreciation and Amortization</b>						
Balances at beginning of year	–	140,418,816	388,446,654	353,328,960	282,074,124	1,164,268,554
Depreciation and amortization	–	6,803,395	75,461,932	37,801,226	3,505,126	123,571,679
Disposals	–	–	–	(51,130,840)	(183,967)	(51,314,807)
Balances at end of year	–	<b>147,222,211</b>	<b>463,908,586</b>	<b>339,999,346</b>	<b>285,395,283</b>	<b>1,236,525,426</b>
<b>Carrying Amount</b>	<b>₱164,344,500</b>	<b>₱103,603,824</b>	<b>₱252,985,541</b>	<b>₱125,459,453</b>	<b>₱21,279,396</b>	<b>₱667,672,714</b>

	2023					Total
	Land	Building and Condominium Units	ROU Assets (see Note 18)	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
<b>Cost</b>						
Balances at beginning of year	<b>₱164,344,500</b>	<b>₱249,385,860</b>	<b>₱534,084,048</b>	<b>₱414,482,545</b>	<b>₱286,408,320</b>	<b>₱1,648,705,273</b>
Additions	–	–	99,619,083	67,798,990	4,593,523	172,011,596
Disposals	–	–	–	(19,788,680)	(59,999)	(19,848,679)
Balances at end of year	<b>164,344,500</b>	<b>249,385,860</b>	<b>633,703,131</b>	<b>462,492,855</b>	<b>290,941,844</b>	<b>1,800,868,190</b>
<b>Accumulated Depreciation and Amortization</b>						
Balances at beginning of year	–	133,645,375	312,671,099	339,033,429	280,478,827	1,065,828,730
Depreciation and amortization	–	6,773,441	75,775,555	31,794,585	1,595,297	115,938,878
Disposals	–	–	–	(17,499,054)	–	(17,499,054)
Balances at end of year	–	<b>140,418,816</b>	<b>388,446,654</b>	<b>353,328,960</b>	<b>282,074,124</b>	<b>1,164,268,554</b>
<b>Carrying Amount</b>	<b>₱164,344,500</b>	<b>₱108,967,044</b>	<b>₱245,256,477</b>	<b>₱109,163,895</b>	<b>₱8,867,720</b>	<b>₱636,599,636</b>

Additions to property and equipment, excluding ROU assets, amounted to ₱79.6 million and ₱72.4 million in 2024 and 2023, respectively.

Certain property and equipment were sold in 2024 and 2023 for ₱8.6 million and ₱3.4 million, respectively. Gain on sale included under “Net losses from assets sold or acquired” in the statements of income amounted to ₱482,364 and ₱1.0 million in 2024 and 2023, respectively (see Note 9).

As at December 31, 2024 and 2023, the cost of fully depreciated assets, which are still being used in the operations, amounted to ₱570.0 million and ₱560.7 million, respectively.

Details of depreciation and amortization are as follows:

	Note	2024	2023
Property and equipment		<b>₱123,571,679</b>	₱115,938,878
Foreclosed assets:	9		
Investment properties		<b>31,457,999</b>	27,024,658
Other foreclosed assets		<b>2,010,065</b>	3,683,665
Computer software	11	<b>24,766,432</b>	17,365,381
	20	<b>₱181,806,175</b>	₱164,012,582

## 11. Intangible Assets

This account consists of:

	2024	2023
Branch licenses	<b>₱225,390,000</b>	₱225,390,000
Computer software	<b>86,282,041</b>	71,528,747
	<b>₱311,672,041</b>	₱296,918,747

Branch licenses, recognized from business combination, include branch licenses from CSB amounting to ₱128.0 million, and licensing fees incurred in opening additional branches.

Of the total 47 branches of the Bank, 18 branches are in restricted areas, as determined by the BSP.

The impairment test on branch licenses is based on value-in-use calculations determined using a discounted cash flow model. The recoverable amount of the CGU has been determined based on cash flow projections from financial budgets approved by senior management covering a five-year period. The discount rates applied to cash flow projections are 6.09% and 6.05% in 2024 and 2023, respectively, and cash flows beyond the five year-period are extrapolated using a steady growth rate of 10% in 2024 and 2023, which does not exceed the long-term average growth rate for the industry.

The calculation of the value-in-use of the CGU is most sensitive to the following assumptions:

- Discount rate;
- Steady growth rate used to extrapolate cash flows beyond the projection period; and
- Local inflation rate.

The key assumptions are consistent with information from external sources. With regard to the assessment of value-in-use of the CGU, management believes that no reasonably possible change in any of the foregoing key assumptions would cause the carrying amount of the branch licenses to materially exceed its recoverable amount.

Movements in computer software are as follows:

	Note	2024	2023
<b>Cost</b>			
Balance at beginning of year		₱423,689,149	₱401,418,230
Additions		39,519,726	22,270,919
Balance at end of year		463,208,875	423,689,149
<b>Accumulated Amortization</b>			
Balance at beginning of year		352,160,402	334,795,021
Amortization	10	24,766,432	17,365,381
Balance at end of year		376,926,834	352,160,402
<b>Carrying Amount</b>		<b>₱86,282,041</b>	<b>₱71,528,747</b>

## 12. Other Assets

This account consists of:

	Note	2024	2023
Restricted cash		₱125,239,320	₱124,768,500
Prepaid expenses		83,230,030	82,130,644
Refundable deposits	18	29,869,793	29,246,619
Documentary stamp taxes		13,822,997	12,299,571
Deferred lease	18	1,756,956	2,180,680
RCOCI		468,736	1,579,945
Others		20,220,844	11,872,798
		<b>₱274,608,676</b>	<b>₱264,078,757</b>

Restricted cash pertains to funds set aside by the Bank to comply with the requirement under BSP Circular No. 1166, *Amendments to the Regulations on Electronic Money and the Operations of Electronic Money Issuers in the Philippines*, which requires Bank to maintain at least 50% of the outstanding electronic money balance.

Prepaid expenses include prepaid taxes, rentals, group life insurance and employee benefits related to the car plan for the officers of the Bank (see Note 23).

Others mainly consist of membership fees in Bancnet and Credit Management Association of the Philippines, and deposits with a health care agency for the Bank's employee health plan.

## 13. Deposit Liabilities

This account consists of:

	2024	2023
Savings	₱24,368,291,618	₱18,194,453,538
Time	14,080,710,890	10,230,289,875
Demand	10,703,889,573	10,269,072,898
	<b>₱49,152,892,081</b>	<b>₱38,693,816,311</b>

In accordance with the BSP requirements, the reserve requirement for Philippine Peso deposit liabilities and deposit substitutes is 2% as at December 31, 2023. As per BSP Circular No. 1201, *Reduction in Reserve Requirements*, effective on October 25, 2024, the reserve requirement was reduced from 2% to 1% for thrift banks.

As mandated by the BSP, only demand deposit accounts maintained by banks with the BSP are eligible for compliance with reserve requirements, thereby excluding government securities and cash in vault as eligible reserves. Further, demand deposits maintained with the BSP in compliance with the reserve requirements do not earn interest.

As at December 31, 2024 and 2023, the Bank is compliant with the foregoing BSP requirements. The available reserves, which form part of “Due from Bangko Sentral ng Pilipinas”, amounted to ₱762.4 million and ₱695.2 million as at December 31, 2024 and 2023, respectively.

As at December 31, 2024 and 2023, 71% and 60% of the total deposit liabilities, respectively, are subject to periodic interest repricing. The remaining deposit liabilities bear annual fixed interest rates as follows:

	2024	2023
Philippine Peso-denominated	<b>0.25% to 6.75%</b>	0.25% to 6.50%
Foreign currency-denominated	<b>0.125% to 0.15%</b>	0.125% to 0.15%

Interest expense recognized in the financial statements arises from:

	Note	2024	2023
Deposit liabilities:			
Savings		<b>₱1,059,817,519</b>	₱557,340,331
Time		<b>669,124,203</b>	540,153,811
Demand		<b>23,576,167</b>	23,125,902
		<b>1,752,517,889</b>	1,120,620,044
Unsecured subordinated debt	15	<b>80,500,000</b>	80,500,000
Lease liabilities	18	<b>14,181,099</b>	14,478,078
Interbank loans payable	6	<b>443,550</b>	246,745
		<b>₱1,847,642,538</b>	₱1,215,844,867

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**14. Accrued Interest, Taxes and Other Expenses**

This account consists of:

	<b>2024</b>	2023
Accrued expenses:		
Interest	<b>₱105,393,889</b>	₱83,192,767
Compensation and other benefits	<b>32,210,900</b>	51,322,947
Security, messengerial and janitorial	<b>10,710,045</b>	16,286,884
Agri-agra penalties	<b>8,706,966</b>	45,778,158
Utilities and leased line	<b>867,726</b>	4,562,197
ATM related expenses	<b>539,746</b>	2,837,796
Others	<b>9,423,447</b>	49,545,335
	<b>167,852,719</b>	253,526,084
Accrued gross receipts tax (GRT)	<b>13,856,723</b>	17,396,726
	<b>₱181,709,442</b>	₱270,922,810

Accruals for other expenses pertain to rent, insurance, publications, repairs and maintenance.

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**15. Unsecured Subordinated Debt**

On January 23, 2020, the MB of the BSP, in its Resolution No. 124, approved the Bank's issuance of unsecured subordinated debt with principal amount aggregating ₱300.0 million, which was issued on December 10, 2020 and bears 4.75% interest per annum, payable quarterly. This unsecured subordinated debt will mature after 10 years and three months from issuance date but may be called by the Bank on any interest payment date after five years and three months from issuance at principal amount plus accrued interest.

On August 25, 2022, the MB of the BSP, in its Resolution No. 1264, approved the Bank's exercise of call option on its outstanding ₱1.0 billion unsecured subordinated debt that was issued July 18, 2017. In the same resolution, the issuance of unsecured subordinated debt with principal amount aggregating ₱1.0 billion was also approved, and was issued on October 18, 2022 and bears 6.63% interest per annum, payable quarterly. This unsecured subordinated debt will mature after 10 years and three months from issuance date but may be called by the Bank on any interest payment date after the fifth year of issuance at principal amount plus accrued interest.

Interest expense on unsecured subordinated debt amounted to ₱80.5 million in 2024 and 2023 (see Note 13).

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**16. Other Liabilities**

This account consists of:

	<b>2024</b>	2023
Accounts payable	<b>₱909,081,200</b>	₱854,182,583
Due to PDIC	<b>46,637,949</b>	37,261,145
Withholding taxes	<b>38,874,727</b>	29,517,925
Statutory obligations	<b>5,539,414</b>	4,686,697
Payment orders	<b>2,457,361</b>	4,235,873
Others	<b>59,163,644</b>	65,309,488
	<b>₱1,061,754,295</b>	₱995,193,711

Accounts payable pertain to payables for cash cards, chattel mortgage, insurance and loan service fees, Bancnet and VISA, stale checks, incoming dollar remittances to the Bank for payment to various payees as part of its intermediary services, settlement account for InstaPay transactions and remaining balances on purchases of property and equipment. Accounts payable are noninterest-bearing and normally settled within one year.

Due to PDIC pertains to the Bank's insurance premium on deposit liabilities payable one month after reporting year.

Payment orders refer to inward and outward remittances of funds by telegraphic transfers, demand drafts, or mail transfer orders received by the Bank pending payment/disposition to designated beneficiaries or application/disposition to appropriate accounts.

Others mainly consist of dormant deposit accounts.

## 17. Classification of Assets and Liabilities

The following tables present the carrying amount of assets and liabilities classified as either current or noncurrent as at December 31:

	Note	2024			2023		
		Current	Noncurrent	Total	Current	Noncurrent	Total
<b>Financial Assets</b>							
Financial assets at FVOCI	7	₱3,428,908,460	₱863,628,661	₱4,292,537,121	₱3,372,461,459	₱201,351,950	₱3,573,813,409
Financial assets at FVPL	7	918,519,814	–	918,519,814	114,982	–	114,982
Financial assets at amortized cost:							
Cash and other cash items		591,461,645	–	591,461,645	578,568,031	–	578,568,031
Due from BSP		2,693,012,542	–	2,693,012,542	2,056,165,929	–	2,056,165,929
Due from other banks		2,185,035,209	–	2,185,035,209	1,502,080,267	–	1,502,080,267
Interbank loans receivable	6	–	–	–	1,348,001,167	–	1,348,001,167
Government securities	7	58,652,425	28,922,500	87,574,925	55,451,084	87,499,490	142,950,574
Private bonds	7	–	69,627,733	69,627,733	–	–	–
Loans and receivables - gross	8	33,773,240,407	11,836,784,158	45,610,024,565	26,762,486,731	9,084,935,752	35,847,422,483
Other assets <sup>1</sup>	12	125,741,616	29,836,233	155,577,849	126,348,445	29,246,619	155,595,064
		<b>43,774,572,118</b>	<b>12,828,799,285</b>	<b>56,603,371,403</b>	<b>35,801,678,095</b>	<b>9,403,033,811</b>	<b>45,204,711,906</b>
<b>Nonfinancial Assets</b>							
Foreclosed assets	9	41,812,665	544,782,434	586,595,099	18,397,581	595,361,673	613,759,254
Property and equipment	10	–	1,904,198,140	1,904,198,140	–	1,800,868,190	1,800,868,190
Intangible assets	11	–	688,598,875	688,598,875	–	649,079,149	649,079,149
Deferred tax assets	21	–	41,548,874	41,548,874	–	27,991,015	27,991,015
Other assets	12	81,033,266	37,997,561	119,030,827	82,130,644	26,353,049	108,483,693
		<b>122,845,931</b>	<b>3,217,125,884</b>	<b>3,339,971,815</b>	<b>100,528,225</b>	<b>3,099,653,076</b>	<b>3,200,181,301</b>
		<b>43,897,418,049</b>	<b>16,045,925,169</b>	<b>59,943,343,218</b>	<b>35,902,206,320</b>	<b>12,502,686,887</b>	<b>48,404,893,207</b>
Less:							
Allowance for credit and impairment losses on:							
Loans and receivables	8	–	851,609,091	851,609,091	–	888,853,072	888,853,072
Foreclosed assets	9	8,070,879	–	8,070,879	8,027,934	–	8,027,934
Accumulated depreciation and amortization of:							
Property and equipment	10	–	1,236,525,426	1,236,525,426	–	1,164,268,554	1,164,268,554
Computer software	11	–	376,926,834	376,926,834	–	352,160,402	352,160,402
Unearned discounts and capitalized interest	8	–	1,958,942	1,958,942	–	1,127,999	1,127,999
		<b>8,070,879</b>	<b>2,467,020,293</b>	<b>2,475,091,172</b>	<b>8,027,934</b>	<b>2,406,410,027</b>	<b>2,414,437,961</b>
		<b>₱43,889,347,170</b>	<b>₱13,578,904,876</b>	<b>₱57,468,252,046</b>	<b>₱35,894,178,386</b>	<b>₱10,096,276,860</b>	<b>₱45,990,455,246</b>
<b>Financial Liabilities</b>							
Deposit liabilities	13	₱47,569,233,116	₱1,583,658,965	₱49,152,892,081	₱36,488,348,893	₱2,205,467,418	₱38,693,816,311
Interbank loans payable	6	175,000,000	–	175,000,000	–	–	–
Manager's checks		131,325,324	–	131,325,324	121,010,179	–	121,010,179
Accrued interest and other expenses	14	167,852,719	–	167,852,719	253,526,084	–	253,526,084
Unsecured subordinated debt	15	–	1,300,000,000	1,300,000,000	–	1,300,000,000	1,300,000,000
Lease liabilities	18	73,325,216	206,853,286	280,178,502	67,271,965	201,201,073	268,473,038
Other liabilities	16	970,702,205	–	970,702,205	923,727,944	–	923,727,944
		<b>49,087,438,580</b>	<b>3,090,512,251</b>	<b>52,177,950,831</b>	<b>37,853,885,065</b>	<b>3,706,668,491</b>	<b>41,560,553,556</b>
<b>Nonfinancial Liabilities</b>							
Accrued GRT	14	13,856,723	–	13,856,723	17,396,726	–	17,396,726
Retirement liability	19	–	53,027,284	53,027,284	–	77,128,693	77,128,693
Income tax payable		5,151,338	–	5,151,338	7,006,583	–	7,006,583
Other liabilities <sup>2</sup>	16	91,052,090	–	91,052,090	71,465,767	–	71,465,767
		<b>110,060,151</b>	<b>53,027,284</b>	<b>163,087,435</b>	<b>95,869,076</b>	<b>77,128,693</b>	<b>172,997,769</b>
		<b>₱49,197,498,731</b>	<b>₱3,143,539,535</b>	<b>₱52,341,038,266</b>	<b>₱37,949,754,141</b>	<b>₱3,783,797,184</b>	<b>₱41,733,551,325</b>

<sup>1</sup>Other financial assets pertain to restricted cash, refundable deposits and RCOCI (see Note 12).

<sup>2</sup>Other nonfinancial liabilities pertain to due to PDIC, withholding taxes and statutory obligations (see Note 16).

## 18. Lease Commitments

The Bank has existing non-cancellable lease agreements for the lease of its branch premises for a period of one to ten years, renewable upon mutual agreement of both parties. The rentals are subject to annual escalation rates ranging from 2.0% to 8.0%.

Outstanding rental and security deposits on lease commitments, which are refundable in cash upon termination of lease agreements, amounted to ₱29.9 million and ₱29.2 million as at December 31, 2024 and 2023, respectively (see Note 12).

Deferred lease, which pertains to the difference between the nominal value of the refundable deposit and its fair value at inception of the lease that is amortized as expense on a straight-line basis over the lease term, amounted to ₱1.8 million and ₱2.2 million as at December 31, 2024 and 2023, respectively (see Note 12).

ROU assets, presented as part of "Property and equipment" account, pertain to leased branch premises amounted to ₱253.0 million and ₱245.3 million as at December 31, 2024 and 2023, respectively (see Note 10).

Movements in the lease liabilities are as follows:

	2024	2023
Balance at beginning of year	₱268,473,038	₱241,109,327
Payments	(85,666,631)	(86,733,450)
Additions	83,190,996	99,619,083
Interest expense	14,181,099	14,478,078
	<b>280,178,502</b>	268,473,038
Current portion	73,325,216	67,271,965
Noncurrent portion	<b>₱206,853,286</b>	₱201,201,073

Lease-related expenses recognized in the financial statements consist of:

	Note	2024	2023
Amortization of ROU assets	10	₱75,461,932	₱75,775,555
Rent expense		59,524,262	35,963,973
Interest expense on lease liabilities	13	14,181,099	14,478,078
		<b>₱149,167,293</b>	₱126,217,606

Rent expense, which pertains to short-term leases of branch premises, is presented under "Occupancy" account in the statements of income.

Lease commitments are as follows:

	2024	2023
Not later than one year	₱86,417,462	₱76,766,814
Later than one year but not later than five years	208,941,375	198,919,873
Later than five years	5,740,066	18,772,272
	<b>₱301,098,903</b>	₱294,458,959

## 19. Retirement Plan

The Bank has a funded, noncontributory defined benefit retirement plan covering all of its officers and regular employees. Under the retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. An independent actuary, using the projected credit method, conducted an actuarial valuation of the retirement liability as at December 31, 2023.

The retirement fund of the Bank is placed under the management of the Bank's Trust Group with oversight from the Bank's Retirement Fund Committee, as appointed by the BOD. The Retirement Plan Trustee, as appointed by the Bank, in the Trust Agreement, is responsible for the general administration of the Retirement Plan and the management of the Retirement Fund.

The retirement benefits recognized in the statements of income are as follows:

	2024	2023
Current service cost	₱19,294,661	₱17,748,476
Net interest cost	4,241,919	2,748,542
	<b>₱23,536,580</b>	<b>₱20,497,018</b>

Remeasurement gain (loss), net of related deferred tax, amounted to ₱20.7 million and (₱8.7 million) in 2024 and 2023, respectively. Cumulative remeasurement gains (losses) on retirement liability recognized in the statements of financial position amounted to ₱17.9 million and (₱2.9 million) as at December 31, 2024 and 2023, respectively.

Net retirement liability is as follows:

	2024	2023
Present value of retirement obligation	₱206,909,775	₱185,735,988
Fair value of plan assets	(153,882,491)	(108,607,295)
	<b>₱53,027,284</b>	<b>₱77,128,693</b>

Movements in the present value of retirement obligation are as follows:

	2024	2023
Balance at beginning of year	₱185,735,988	₱181,244,995
Current service cost	19,294,661	17,748,476
Interest cost	11,340,667	12,231,139
Benefits paid	(9,461,541)	(1,689,416)
Remeasurement gain	-	(23,799,206)
Balance at end of year	<b>₱206,909,775</b>	<b>₱185,735,988</b>

Movements in the fair value of the plan assets follow:

	<b>2024</b>	2023
Balance at beginning of year	<b>₱108,607,295</b>	₱126,209,790
Remeasurement gain (loss), excluding amount included in net interest	<b>27,637,989</b>	(35,395,676)
Contributions made	<b>20,000,000</b>	10,000,000
Benefits paid from plan assets	<b>(9,461,541)</b>	(1,689,416)
Interest income	<b>7,098,748</b>	9,482,597
<b>Balance at end of year</b>	<b>₱153,882,491</b>	<b>₱108,607,295</b>

The plan assets are carried at fair value. All equity, debt instruments and investments of the pooled funds held have quoted prices in active market. The fair value of other assets and liabilities, which include deposits in banks, BSP's special deposit account, accrued interest and other receivables and trust fee payables, approximate carrying amount due to the short-term nature of these accounts.

The plan assets are diversified investments. Those in short-term placements will be further invested depending on the market direction.

The composition of plan assets by class as at December 31, 2024 and 2023 follows:

	<b>2024</b>	2023
Debt instruments:		
Government securities	<b>35%</b>	36%
Private bonds	<b>14%</b>	14%
	<b>49%</b>	50%
Investment in unit investment trust fund	<b>49%</b>	45%
Equity instruments	<b>2%</b>	4%
Investment in savings deposit	<b>0%</b>	1%
Receivables	<b>0%</b>	0%
<b>Fair value of plan assets</b>	<b>100%</b>	<b>100%</b>

The principal actuarial assumptions used in determining the net retirement liability are shown below:

	<b>2024</b>	2023
Discount rate	<b>6.11%</b>	6.68%
Salary increase rate	<b>3.00%</b>	3.00%

The retirement plan exposes the Bank to the following risks:

- *Salary risk* – any increase in the qualified employees' salary will increase the present value of defined benefit obligation.
- *Longevity risk* – any increase in the qualified employees' life expectancy will increase the present value of defined benefit obligation.
- *Interest rate risk* – a decrease in the bond interest rate will increase the present value of the defined benefit obligation. However, this is partially counterbalanced by an increase in the return on the plan assets.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2024, assuming all other assumptions were held constant:

	Change in Assumption	Effect on Retirement Liability
Discount rate	+1.00%	(P11,254,544)
	-1.00%	12,831,234
Salary increase rate	+1.00%	13,942,226
	-1.00%	(12,395,318)
Turn over rate	120% of actual	(5,643,875)
	80.00% of actual	6,304,362

The Bank expects to contribute P20.0 million to the plan in 2025. The average duration of the defined benefit obligation at the end of the reporting year is 9.61 years.

Shown below is the maturity analysis of the undiscounted benefit payments within the next ten years as at December 31, 2024:

Less than one year	P47,300,776
One to less than five years	83,783,979
More than five years	541,124,318
	<b>P672,209,073</b>

## 20. Operating Expenses

This account consists of:

	Note	2024	2023
Compensation and fringe benefits		<b>P709,372,515</b>	P653,084,464
Taxes and licenses		<b>260,911,140</b>	205,486,494
Depreciation and amortization	10	<b>181,806,175</b>	164,012,582
Representation and entertainment		<b>125,985,432</b>	125,329,367
Insurance		<b>91,821,305</b>	73,844,730
Repairs and maintenance		<b>88,640,261</b>	74,250,097
Fees and commissions		<b>75,490,281</b>	61,374,331
Security, messengerial and janitorial		<b>74,077,739</b>	86,421,321
Occupancy		<b>65,097,723</b>	59,524,262
Postage		<b>43,854,382</b>	49,246,643
Litigation cost		<b>34,017,013</b>	49,445,160
Appraisal fees		<b>16,269,799</b>	15,172,185
Supervision fees		<b>13,209,357</b>	15,056,231
Provision for impairment loss on assets held for sale	9	<b>12,806,939</b>	359,517
Management and other professional fees		<b>12,428,528</b>	10,406,666
Stationery and supplies used		<b>8,714,158</b>	9,103,808
Fines and penalties		<b>8,033,157</b>	19,725,535
Transportation and travel		<b>6,017,409</b>	4,935,154
Promotions and advertising		<b>3,345,762</b>	3,491,469
Others		<b>35,999,378</b>	30,462,975
		<b>P1,867,898,453</b>	P1,710,732,991

Others include office supplies and membership fees and dues.

## 21. Income and Other Taxes

Current income tax expense consists of:

	2024	2023
MCIT	<b>₱20,867,948</b>	₱16,931,818
Final tax	<b>83,333,457</b>	57,077,331
	<b>₱104,201,405</b>	₱74,009,149

Under Philippine tax laws, the Bank is subject to percentage and other taxes, presented as “Taxes and licenses” under “Operating expenses” account in the statements of income, as well as income taxes. Percentage and other taxes paid consist principally of GRT and documentary stamp tax.

RA No. 9294, *An Act Restoring the Tax Exemption of Offshore Banking Units (OBUs) and Foreign Currency Deposit Units*, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, offshore banking units (OBUs), and local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency denominated loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% onshore income tax.

The RBU incurred MCIT in 2024 and 2023. The FCDU is in a gross loss and taxable loss position in 2024 and 2023.

The reconciliation between the income tax expense at statutory tax rate and income tax expense presented in the statements of income is as follows:

	2024	2023
Income tax expense at statutory tax rate	<b>₱89,331,584</b>	₱78,398,655
Tax effects of:		
Nontaxable income	<b>(68,653,024)</b>	(59,818,678)
Nondeductible expenses	<b>55,507,792</b>	48,992,098
Interest income subjected to final tax	<b>(19,131,376)</b>	(18,934,031)
Changes in unrecognized deferred tax assets	<b>26,679,073</b>	22,075,196
	<b>₱83,734,049</b>	₱70,713,240

Net deferred tax assets (liabilities) are recognized as follows:

	2024	2023
Through:		
Profit or loss	<b>₱47,668,828</b>	₱27,201,472
Other comprehensive income	<b>(6,119,954)</b>	789,543
	<b>₱41,548,874</b>	₱27,991,015

Deferred tax benefit (expense) is recognized as follows:

	2024	2023
Through:		
Profit or loss	<b>₱20,467,356</b>	₱3,295,909
Other comprehensive income	<b>(6,909,497)</b>	2,899,118
	<b>₱13,557,859</b>	₱6,195,027

Deferred tax assets and liabilities consist of:

	2024	2023
Deferred tax assets on:		
Allowance for credit and impairment losses on loans and receivables	<b>₱58,918,608</b>	₱41,723,465
Cumulative unrealized losses on foreclosed assets	<b>9,508,395</b>	10,432,016
Excess of lease liabilities over ROU assets	<b>6,798,240</b>	5,804,140
Allowance for impairment losses on assets held for sale	<b>4,443,585</b>	1,241,851
Cumulative remeasurement losses on retirement liability	–	789,543
	<b>79,668,828</b>	59,991,015
Deferred tax liabilities on:		
Fair value adjustment on branch licenses acquired in business combination	<b>(32,000,000)</b>	(32,000,000)
Cumulative remeasurement gains on retirement liability	<b>(6,119,954)</b>	–
	<b>(38,119,954)</b>	(32,000,000)
Net deferred tax assets	<b>₱41,548,874</b>	₱27,991,015

As at December 31, 2024 and 2023, the Bank has not recognized deferred tax assets relating to the following deductible temporary differences:

	2024	2023
Allowance for credit and impairment losses on loans and receivables	<b>₱615,934,659</b>	₱725,019,739
NOLCO	<b>326,387,391</b>	100,657,227
Retirement liability	<b>77,507,103</b>	73,970,523
Excess of MCIT over RCIT	<b>37,884,320</b>	17,016,372
Unamortized past service cost	<b>25,516,500</b>	25,516,500
	<b>₱1,083,229,973</b>	₱942,180,361

Management assessed that it is not probable that sufficient future taxable profit will be available to allow the unrecognized deferred tax assets to be utilized.

Details of NOLCO related to the RBU are as follows:

Year Incurred	Beginning Balance	Incurred	Ending Balance	Valid Until
2024	₱–	₱153,660,736	₱153,660,736	2027
2023	29,667,833	–	29,667,833	2026
	<b>₱29,667,833</b>	<b>₱153,660,736</b>	<b>₱183,328,569</b>	

Details of NOLCO related to the FCDU are as follows:

Year Incurred	Beginning Balance	Incurred	Ending Balance	Valid Until
2024	₱-	₱72,069,428	₱72,069,428	2027
2023	46,951,950	-	46,951,950	2026
2022	1,206,709	-	1,206,709	2025
2021	6,074,719	-	6,074,719	2026
2020	16,756,016	-	16,756,016	2025
	<b>₱70,989,394</b>	<b>₱72,069,428</b>	<b>₱143,058,822</b>	

Pursuant to the RA No. 11494, *Bayanihan Recover as One Act*, and Revenue Regulations No. 25-2020, entities which incurred net operating loss for taxable years 2020 and 2021 shall be allowed to carry over the same as a deduction from gross income for the next five consecutive taxable years immediately following the year of such loss.

Details of excess MCIT over RCIT related to the RBU are as follows:

Year Incurred	Beginning Balance	Incurred	Expired	Ending Balance	Valid Until
2024	₱-	₱20,867,948	₱-	₱20,867,948	2027
2023	16,931,818	-	-	16,931,818	2026
	<b>₱16,931,818</b>	<b>₱20,867,948</b>	<b>₱-</b>	<b>₱37,799,766</b>	

Details of excess MCIT over RCIT related to the FCDU are as follows:

Year Incurred	Beginning Balance	Incurred	Expired	Ending Balance	Valid Until
2022	₱66,171	₱-	₱-	₱66,171	2025
2021	18,383	-	(18,383)	-	2024
	<b>₱84,554</b>	<b>₱-</b>	<b>(₱18,383)</b>	<b>₱66,171</b>	

**The Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act**

Under the CREATE Act, the RCIT of domestic corporations was reduced from 30% to 25% or 20% depending on the amount of total assets or total amount of taxable income. MCIT was changed from 2% to 1% of gross income for a period of three years up to June 30, 2023. The rate of MCIT reverted to 2% based on gross income starting July 1, 2023. The impact of the revision is accounted for in 2023, if any.

## 22. Equity

### Capital Stock

Details and movements in this account are as follows:

	Number of Shares		Amount	
	2024	2023	2024	2023
<b>Authorized - ₱10 par value</b>				
Perpetual preferred stock	<b>100,000,000</b>	100,000,000	<b>₱1,000,000,000</b>	₱1,000,000,000
Common stock	<b>300,000,000</b>	300,000,000	<b>3,000,000,000</b>	3,000,000,000
<b>Issued and outstanding:</b>				
Perpetual preferred stock				
Balance at beginning and end of year	<b>30,000,000</b>	30,000,000	<b>₱300,000,000</b>	₱300,000,000
Common stock				
Balance at beginning of year	<b>237,000,000</b>	217,000,000	<b>₱2,370,000,000</b>	₱2,170,000,000
Issuances	<b>55,000,000</b>	20,000,000	<b>550,000,000</b>	200,000,000
Balance at end of year	<b>292,000,000</b>	237,000,000	<b>₱2,920,000,000</b>	₱2,370,000,000

The perpetual preferred stock, which has an annual dividend rate of 4.375%, is cumulative and has no voting rights. As at December 31, 2024 and 2023, cumulative preference dividends amounted to ₱138.5 million and ₱125.4 million, respectively.

### Reserves

Reserves as at December 31, 2024 and 2023 consist of:

	2024	2023
Reserve for GLLP	<b>₱308,445,592</b>	₱221,440,731
Reserve for trust business	<b>16,292,277</b>	14,329,680
	<b>₱324,737,869</b>	₱235,770,411

Reclassification was made in the 2023 statements of financial position to present separately the Bank's reserves.

In accordance with Appendix 100 – *Guidelines on the Adoption of the PFRS 9, Financial Instruments, - Impairment* to Section 172 of the MORB of the BSP, banks should set up GLLP equivalent to 1% of all current loans (after excluding accounts considered as credit risk-free under existing regulations).

Reserves for GLLP were recognized when the computed allowance for ECL on current loans is less than the 1% GLLP. Additional reserve for GLLP amounting to ₱87.0 million and ₱165.0 million were recognized in 2024 and 2023, respectively.

In compliance with the existing BSP regulations, the Bank should, before the declaration of dividends, carry to retained earnings at least 10% of its income from trust operations since the last preceding dividend declaration until the retained earnings amount to 20% of its authorized capital stock. Additional reserve amounting to ₱2.0 million and ₱1.8 million were recognized in 2024 and 2023, respectively.

## 23. Related Party Transactions and Balances

In the ordinary course of business, the Bank enters into loan and other transactions with its related parties and with certain 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.

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

Nature of Transactions	2024		2023	
	Transactions during the Year	Outstanding Balances	Transactions during the Year	Outstanding Balances
<b>Key Management Personnel</b>				
Loans and receivables	₱2,625,000	₱4,936,113	₱3,684,137	₱5,617,137
Interest income	393,904	31,366	385,706	38,987
Deposit liabilities	82,313,883	68,157,230	113,320,027	59,281,277
Interest expense	359,955	–	522,650	–
<b>Subsidiaries of the Parent</b>				
<b>Company</b>				
Loans and receivables	2,299,000,000	1,632,892,202	1,565,434,000	1,400,000,000
Interest income	136,102,439	25,335,493	85,316,947	27,990,217
Deposit liabilities	389,756,785	84,201,661	1,285,798,234	39,605,274
Interest expense	49,278	–	426,693	–
Unsecured subordinated debt	–	1,300,000,000	–	1,300,000,000
Interest expense	–	80,500,000	–	80,500,000
Trust fee	2,743,814	1,326,427	2,762,754	1,171,538
Lease liabilities	35,574,196	35,053,488	5,986,330	9,187,308
Interest expense	824,415	–	585,797	–
ROU assets	35,574,196	34,449,735	5,986,330	8,011,278
Amortization	5,364,778	–	7,402,454	–
<b>Parent Company</b>				
Deposit liabilities	907,916,922	28,933	1,163,861,372	–
Interest expense	1,427	–	3,588	–
<b>Stockholders</b>				
Deposit liabilities	154,688,362	37,245,992	173,401,826	46,093,450
Interest expense	446,069	–	790,190	–
<b>Other Related Parties</b>				
Loans and receivables	2,123,199,781	1,790,757,451	2,274,288,056	1,614,428,103
Interest income	118,795,576	81,563,819	118,096,433	22,031,321
Deposit liabilities	58,638,895	2,111,468	770,454,244	11,858,533
Interest expense	1,051	–	77,399	–

### Terms and Conditions

Loans and receivables are secured by chattel mortgages, deposits and real estate properties, having terms ranging from one to 18 years, and bearing interests from 5.00% to 10.68% in 2024 and 5.50% to 10.03% in 2023. Allowance for credit and impairment losses on receivables from related parties amounted to ₱6.5 million and ₱6.9 million as at December 31, 2024 and 2023, respectively.

Deposits have interest ranging from 0.13% to 1.00% in 2024 and 0.13% to 0.50% in 2023.

Unsecured subordinated debt is a transaction with the Trust Unit of the Bank, under the supervision of the Trust Committee (see Note 15).

Trust fees pertain to fees charged for trust operations. These are included under “Other expenses” under “Operating expenses” account in the statements of income.

Lease liabilities, ROU assets and rent expense pertain to leases of branch premises and ATM.

Compensation of key management personnel included under “Compensation and fringe benefits” in the statements of income follows:

	<b>2024</b>	2023
Short-term employee benefits	<b>₱149,365,762</b>	₱145,298,508
Post-employment retirement benefits	<b>5,607,061</b>	5,227,528
	<b>₱154,972,823</b>	₱150,526,036

#### **Transactions with Retirement Plan**

The retirement plan of the Bank is considered as a related party. The retirement plan is in the form of a trust administered by the Trust Unit under the supervision of the Retirement Fund Committee.

The values of the assets of the fund are as follows (see Note 19):

	<b>2024</b>	2023
Investments in:		
Unit investment trust fund	<b>₱75,496,050</b>	₱49,243,256
Saving deposits	<b>3,592,789</b>	630,311
Debt instruments	<b>71,321,868</b>	54,620,728
Equity instruments	<b>3,070,888</b>	4,113,000
	<b>₱153,481,595</b>	₱108,607,295

## **24. Trust Operations**

On May 21, 2008, the Bank was granted a license by the BSP to conduct its trust operations. The Bank started its trust operations on June 2, 2008.

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of financial position since these are not assets of the Bank. Total assets held by the Bank’s Trust Group amounted to ₱5,773.6 million and ₱5,367.0 million as at December 31, 2024 and 2023, respectively.

In compliance with current banking regulations relative to the Bank’s trust operations, government securities included under financial assets at FVOCI with a total face value of ₱72.0 million and ₱62.0 million as at December 31, 2024 and 2023, respectively, are deposited with the BSP. In addition, 10% of the Bank’s net income realized from its trust operations is appropriated to surplus reserve until such reserve for trust operations amounts to 20% of the Bank’s regulatory capital.

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## 25. Commitments and Contingencies

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

As at December 31, 2024 and 2023, the Bank is involved in legal proceedings relating to uncollected loans and acquired properties. Based on the opinion of its legal counsels, the Bank is in a good position to secure favorable judgment in most of these cases. Management therefore believes that the outcome of these proceedings will not have material adverse effect on the financial position and performance of the Bank.

The following is a summary of the commitments and contingencies at their equivalent contractual amounts:

	<b>2024</b>	2023
Investment management account	<b>₱4,956,780,943</b>	₱4,933,902,016
Spot exchange	<b>1,072,147,842</b>	1,166,603,091
Trust bank accounts	<b>816,786,490</b>	433,051,483
Derivatives	<b>115,690,000</b>	55,370,000
Sight/usance domestic letters of credit (LC)	<b>45,130,000</b>	-
Outstanding guarantees issued - others	<b>33,848,965</b>	38,983,406
Inward bills for collection	<b>16,704,277</b>	-
Domestic LC	<b>1,500,000</b>	-
Items held for safekeeping	<b>29,040</b>	25,049
Items held as collateral	<b>12,374</b>	12,692

**26. Supplementary Information Required under Section 174 and Appendix 55 of the Manual of Regulations for Banks by the Bangko Sentral ng Pilipinas, *Disclosure Requirements to the Audited Financial Statements***

**A. Financial Performance Indicators**

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

	2024	2023
Return on average equity	<b>5.83%</b>	6.02%
Return on average assets	<b>0.53%</b>	0.56%
Net interest margin on average earning assets	<b>4.06%</b>	4.52%

**B. Details of Loans**

The following table shows information relating to receivables from customers, gross of unearned discounts and capitalized interests, by collateral.

	2024		2023	
	Amount	%	Amount	%
Secured by:				
Real estate mortgage	<b>₱13,168,708,075</b>	<b>29.52%</b>	₱10,469,042,011	29.80%
Chattel mortgage	<b>2,413,140,273</b>	<b>5.41%</b>	2,015,702,219	5.74%
Deposits	<b>3,523,422,087</b>	<b>7.90%</b>	1,394,683,257	3.97%
Others	<b>33,745,032</b>	<b>0.08%</b>	30,993,601	0.09%
	<b>19,139,015,467</b>	<b>42.91%</b>	13,910,421,088	39.59%
Unsecured	<b>25,463,609,598</b>	<b>57.09%</b>	21,224,068,222	60.41%
	<b>₱44,602,625,065</b>	<b>100.00%</b>	₱35,134,489,310	100.00%

As at December 31, 2024 and 2023, information on the concentration of credit, gross of unearned discounts and capitalized interests, as to industry follows:

	2024		2023	
	Amount	%	Amount	%
Real estate	<b>₱13,700,664,176</b>	<b>30.72%</b>	₱10,779,446,447	30.68%
Other community, social and personal activities	<b>10,702,305,117</b>	<b>23.99%</b>	7,534,325,060	21.44%
Wholesale and retail trade	<b>7,390,910,919</b>	<b>16.57%</b>	6,479,520,689	18.44%
Manufacturing	<b>4,507,044,369</b>	<b>10.10%</b>	4,045,034,722	11.51%
Financial intermediaries	<b>3,851,563,392</b>	<b>8.64%</b>	2,643,145,643	7.52%
Transportation, storage and communication	<b>2,326,005,704</b>	<b>5.21%</b>	1,727,601,767	4.92%
Construction	<b>1,037,064,818</b>	<b>2.33%</b>	931,312,679	2.65%
Hotel and restaurants	<b>878,816,189</b>	<b>1.97%</b>	835,490,338	2.38%
Mining and quarrying	<b>173,434,313</b>	<b>0.39%</b>	153,739,077	0.44%
Agricultural, hunting and forestry	<b>33,316,470</b>	<b>0.07%</b>	2,867,966	0.01%
Electricity, gas and water supply	<b>1,499,598</b>	<b>0.00%</b>	2,004,922	0.01%
	<b>₱44,602,625,065</b>	<b>100.00%</b>	₱35,134,489,310	100.00%

In assessing the concentration of credit risk, the Bank deducts contracts to sell against the total credit exposure on real estate industry.

As at December 31, 2024 and 2023, the Bank's Agriculture, Fisheries and Rural Development (AFRD) credit allocation is at 4.52% and 18.7%, respectively, which is below the mandatory percentage of 25%. The Bank accrued the resulting penalties as at December 31, 2024 and 2023.

NPL pertains to loan accounts even without any missed contractual payments, that are (a) deemed impaired under existing applicable accounting standards, (b) classified as doubtful or loss, (c) in litigation, and/or (d) there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, in the case of secured accounts.

All other loan accounts, even if not considered impaired, should be considered non-performing if any contractual principal and/or interest are not paid for more than 90 days after contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Details of the Bank's gross and net NPL follow:

	2024		2023	
	Amount	%	Amount	%
Gross	<b>₱2,733,489,097</b>	<b>6.13%</b>	₱2,519,467,260	7.17%
Net	<b>2,076,939,652</b>	<b>4.66%</b>	1,724,318,463	4.91%

As at December 31, 2024 and 2023, breakdown of the secured and unsecured NPL follows:

	2024	2023
Secured	<b>₱562,887,148</b>	₱569,712,816
Unsecured	<b>2,170,601,949</b>	1,949,754,444
	<b>₱2,733,489,097</b>	₱2,519,467,260

Status of loans per product as at December 31, 2024 and 2023 are as follows:

	2024		
	Performing	NPL	Total
Corporate loans:			
Term loan	<b>₱30,276,710,500</b>	<b>₱1,643,591,791</b>	<b>₱31,920,302,291</b>
Trust receipt	<b>553,349,037</b>	<b>58,195,918</b>	<b>611,544,955</b>
Bills discounted	<b>104,485,493</b>	<b>107,109,228</b>	<b>211,594,721</b>
Others	<b>24,979,719</b>	<b>23,506,616</b>	<b>48,486,335</b>
	<b>30,959,524,749</b>	<b>1,832,403,553</b>	<b>32,791,928,302</b>
Consumer loans:			
Real estate	<b>6,028,902,381</b>	<b>86,338,568</b>	<b>6,115,240,949</b>
Contract to sell	<b>2,825,010,326</b>	<b>–</b>	<b>2,825,010,326</b>
Auto	<b>1,961,229,765</b>	<b>456,011,697</b>	<b>2,417,241,462</b>
Salary	<b>94,468,747</b>	<b>349,242,293</b>	<b>443,711,040</b>
Others	<b>–</b>	<b>9,492,986</b>	<b>9,492,986</b>
	<b>10,909,611,219</b>	<b>901,085,544</b>	<b>11,810,696,763</b>
	<b>₱41,869,135,968</b>	<b>₱2,733,489,097</b>	<b>₱44,602,625,065</b>

	2023		Total
	Performing	NPL	
<b>Corporate loans:</b>			
Term loan	₱23,868,415,771	₱1,366,931,117	₱25,235,346,888
Trust receipt	271,218,790	58,195,918	329,414,708
Bills discounted	66,881,606	107,109,228	173,990,834
Others	32,018,273	32,999,602	65,017,875
	24,238,534,440	1,565,235,865	25,803,770,305
<b>Consumer loans:</b>			
Real estate	4,541,449,754	31,344,663	4,572,794,417
Contract to sell	2,264,668,934	2,215,956	2,266,884,890
Auto	1,500,700,718	515,001,500	2,015,702,218
Salary	69,668,201	396,176,292	465,844,493
Others	–	9,492,984	9,492,984
	8,376,487,607	954,231,395	9,330,719,002
	₱32,615,022,047	₱2,519,467,260	₱35,134,489,307

Restructured loans, which do not meet the requirements to be treated as performing receivables, are considered as NPL. Restructured loans amounted to ₱681.4 million and ₱729.1 million as at December 31, 2024 and 2023, respectively. Interest income on restructured receivables amounted to ₱26.3 million and ₱34.7 million in 2024 and 2023, respectively.

### C. DOSRI/Related Party Loans

The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective unencumbered deposits and book value of their respective paid-in capital contribution in the Bank. These limits do not apply to (a) loans and other credit accommodations secured by assets considered as non-risk as defined in the regulations; (b) loans and other credit accommodations in the form of fringe benefits; and (c) portion of loans and other credit accommodations covered by guarantees of the International Finance Corporation (IFC) or the Asian Development Bank (ADB). Moreover, the total outstanding loans to DOSRI, of which 70% must be secured, should not exceed 15% of the total loan portfolio of the Bank or 100% of net worth whichever is lower. These limits do not apply to (a) loans and other credit accommodations secured by assets considered as non-risk as defined in the regulations; (b) qualified credit accommodations to a corporate stockholder; (c) credit accommodations to government-owned or controlled corporations where any director, officer or stockholder of the Bank is a representative of the government in the borrowing corporation and not holding any proprietary interest in such corporation; (d) loans and other credit accommodations to officers in the form of fringe benefits granted in accordance with existing regulations; and (e) portion of loans and other credit accommodations covered by guarantees of the IFC or ADB.

On the other hand, the outstanding loans, credit accommodations and guarantees to each Bank's subsidiaries and affiliates, of which 95% must be secured, should not exceed 10% of the net worth of the Bank. Additionally, the total outstanding loans, credit accommodations, and guarantees to all Bank's subsidiaries and affiliates should not exceed 20% of the net worth of the Bank. These subsidiaries and affiliates are not related interest of any of the director, officer, and/or stockholder of the Bank.

The following table shows information relating to DOSRI and related party loans:

	DOSRI		Related Parties	
	2024	2023	2024	2023
Total outstanding DOSRI/related party loans	<b>₱1,632,892,202</b>	₱1,400,000,000	<b>₱1,795,693,564</b>	₱1,620,045,240
Percent of DOSRI/related party loans to total loan portfolio	<b>3.66%</b>	3.99%	<b>4.02%</b>	4.61%
Percent of unsecured DOSRI/related party loans to total DOSRI/related party loans	<b>23.88%</b>	22.50%	<b>98.66%</b>	83.20%
Percent of past due DOSRI/related party loans to total DOSRI/related party loans	<b>0.00%</b>	0.00%	<b>1.60%</b>	1.76%
Percent of non-performing DOSRI/related party loans to total DOSRI/related party loans	<b>0.00%</b>	0.00%	<b>1.60%</b>	1.76%

Total interest income on DOSRI and related party accounts amounted to ₱3.4 million and ₱14.6 million in 2024 and 2023, respectively.

The effects of the foregoing transactions are shown under the appropriate accounts in the financial statements.

In 2024 and 2023, the Bank is compliant with the BSP requirements on DOSRI/related party loans.

#### **D. Aggregate Amount of Secured Liabilities and Assets Pledged to Secure Liabilities**

There are no secured liabilities as at December 31, 2024 and 2023. No asset is pledged by the Bank to secure outstanding liabilities as at December 31, 2024 and 2023.

Other required information required by Section 174 and Appendix 55 of the MORB are disclosed in the following notes to the financial statements:

- Capital instruments issued - Note 22
- Nature and amount of contingencies and commitments arising from off-balance sheet items, short-term self-liquidating trade-related contingencies arising from the movement of goods, sale and repurchase agreements not recognized in the balance sheet, interest and foreign exchange-rate related items, and other commitments - Note 25

**STERLING BANK OF ASIA INC. (A Savings Bank)**

**FINANCIAL SOUNDNESS INDICATORS**

**AS AT DECEMBER 31, 2024 AND 2023**

<b>Ratio</b>	<b>Formula</b>	<b>2024</b>	<b>2023</b>
Current ratio	Total Current Assets	<b>₱40,187,280,194</b>	₱35,902,206,320
	Divided by: Total Current Liabilities	<b>48,172,233,409</b>	37,949,754,141
		<b>0.83:1</b>	0.95:1
Acid-test ratio	Cash and Other Cash Items, Due from BSP and Other Banks, Loans and Receivables, Investment Securities	<b>₱55,594,225,521</b>	₱42,811,134,604
	Divided by: Total Current Liabilities	<b>48,172,233,409</b>	37,949,754,141
		<b>1.15:1</b>	1.13:1
Solvency ratio	Net Income	<b>₱273,592,289</b>	₱242,881,378
	Add: Interest, Depreciation and Amortization	<b>1,939,805,682</b>	1,379,857,449
	Net Income before Interest, Depreciation and Amortization	<b>2,213,397,971</b>	1,622,738,827
	Divided by: Total Liabilities	<b>52,341,038,266</b>	41,733,551,325
	<b>0.04:1</b>	0.04:1	
Debt-to-equity ratio	Total Liabilities	<b>₱52,341,038,266</b>	₱41,733,551,325
	Divided by: Total Equity	<b>5,127,213,780</b>	4,256,903,921
		<b>10.21:1</b>	9.80:1
Asset-to-equity ratio	Total Assets	<b>₱57,468,252,046</b>	₱45,990,455,246
	Divided by: Total Equity	<b>5,127,213,780</b>	4,256,903,921
		<b>11.21:1</b>	10.80:1
Interest rate coverage ratio	Earnings before Interest Expense and Taxes	<b>₱2,204,968,876</b>	₱1,529,439,484
	Divided by: Interest Expense	<b>1,847,642,538</b>	1,215,844,867
		<b>1.19:1</b>	1.26:1

<b>Ratio</b>	<b>Formula</b>	<b>2024</b>	<b>2023</b>
Return on average equity	Net Income	<b>₱273,592,289</b>	₱242,881,378
	Divided by: Average Equity	<b>4,692,058,851</b>	4,031,254,409
		<b>0.06:1</b>	0.06:1
Return on average assets	Net Income	<b>₱273,592,289</b>	₱242,881,378
	Divided by: Average Assets	<b>51,729,353,646</b>	43,245,654,213
		<b>0.0053:1</b>	0.0056:1
Net profit margin	Net Income	<b>₱273,592,289</b>	₱242,881,378
	Divided by: Total Interest Income	<b>3,874,930,989</b>	3,069,797,790
		<b>0.07:1</b>	0.08:1